BUSINESS WEEK

A McGRAW-HILL PUBLICATION   TWENTY-FIVE CENTS   AUG. 24, 1957

N.Y. Transit Authority's Patterson runs a major business – but not for profits.
(Transportation)

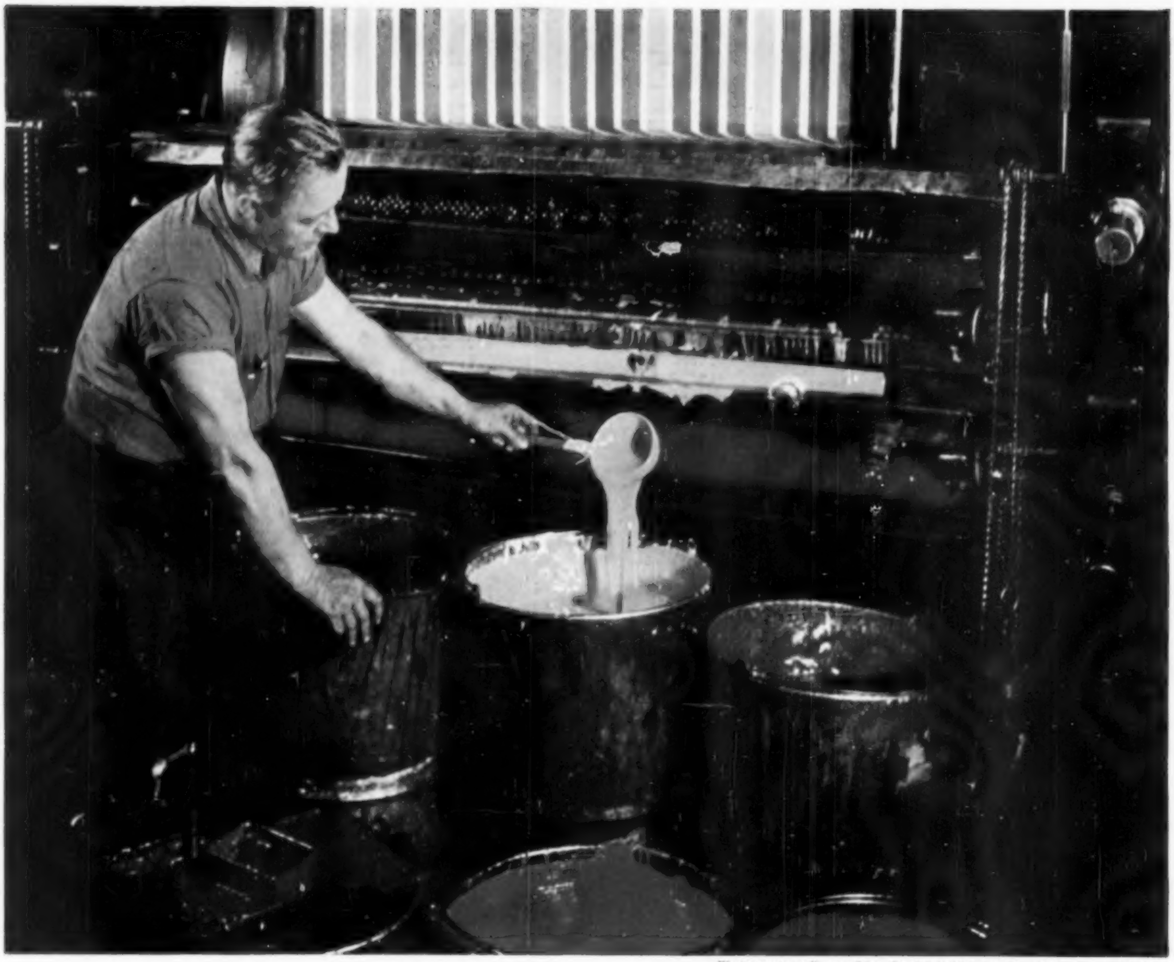


Photo courtesy Beacon Piece Dyeing & Finishing Co., Inc., Beacon, N.Y.

How to set the pace in fastness

A significant advance in textile printing occurred with the advent of resin-bonded pigments. These new colors permitted striking patterns in brilliant shades with excellent fastness to sunlight, atmospheric fumes, washing and dry cleaning. But they still left something to be desired on crocking.

What was needed was a simple method of better protecting the pigments against severe abrasion. Today's solution is one in which CHEMIGUM LATEX plays a major role. Easily modified with other materials and mixed into the colors at the printer's, CHEMIGUM LATEX helps form a protective coating which locks in the pigment particles. The end result sets the current pace in fastness to crocking plus even further improving resistance to washing.

Putting a liquid lock on pigment colors is one of many uses for CHEMIGUM LATEX in the textile industry. Its high binding strength, flexibility, light color—and resistance to washing, dry cleaning and age—are finding wide application in binders, coatings, finishes and adhesives of all types.

To learn more about CHEMIGUM LATEX – and how it can improve textile or paper or leather products, just write to: Goodyear, Chemical Division, Dept. H-9415, Akron 16, Ohio.

CHEMICAL GOODYEAR DIVISION

COATINGS DEPARTMENT

Chemigum, Pliofles, Pliolite, Plio-Tuf, Pliovic—T. M.'s The Goodyear Tire & Rubber Company, Akron, Ohio

CHEMIGUM • PLIOFLEX • PLIOLITE • PLIO-TUF • PLIOVIC • WING-CHEMICALS

High Polymer Resins, Rubbers, Latices and Related Chemicals for the Process Industries

IN BUSINESS THIS WEEK August 24, 1957

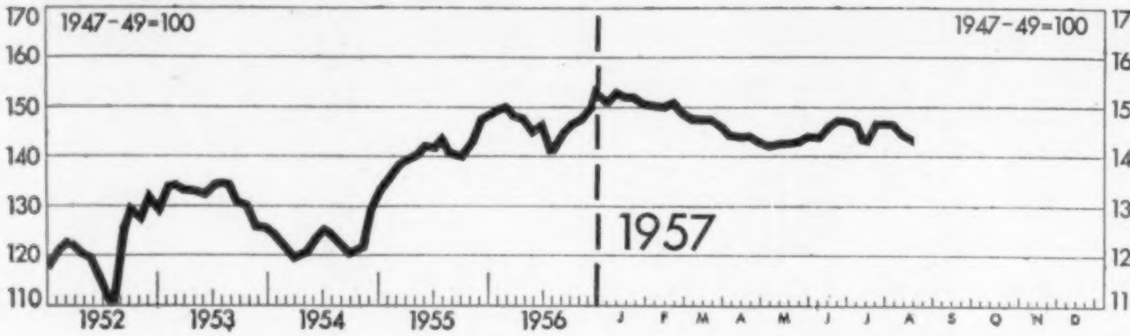
GENERAL BUSINESS

THE DEPARTMENTS

BUSINESS WEEK is published weekly by McGraw-Hill Publishing Co., Inc., at 99 N. Broadway, Albany 1, N. Y. Entered as second class matter Dec. 4, 1936 at the Post Office at Albany, N. Y. under act of Mar. 3, 1879. Subscriptions $6 a year in U. S. A.

NUMBER 1460

FIGURES OF THE WEEK



	1946 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
BUSINESS WEEK INDEX (chart)	**91.6**	**146.0**	**147.4**	**†144.9**	***144.2**

PRODUCTION

Steel ingot (thous. of tons)	1,281	2,359	2,033	†2,062	**2,123**
Automobiles and trucks	62,880	126,675	148,551	†137,143	**146,425**
Engineering const. awards (Eng. News-Rec. 4-wk daily av. in thous.)	$17,083	$50,482	$72,230	$62,702	**$57,041**
Electric power (millions of kilowatt-hours)	4,238	11,794	12,306	12,070	**12,409**
Crude oil and condensate (daily av., thous. of bbls.)	4,751	7,122	6,947	6,797	**6,837**
Bituminous coal (daily av., thous. of tons)	1,745	1,564	1,452	†1,625	**1,615**
Paperboard (tons)	167,269	273,756	264,778	279,462	**286,966**

TRADE

Carloadings: miscellaneous and l.c.l. (daily av., thous. of cars)	82	67	63	66	**67**
Carloadings: all others (daily av., thous. of cars)	53	52	56	58	**56**
Department store sales index (1947-49 = 100, not seasonally adjusted)	90	107	104	†104	**110**
Business failures (Dun & Bradstreet, number)	22	289	266	265	**222**

PRICES

Spot commodities, daily index (Moody's, Dec. 31, 1931 = 100)	311.9	424.2	428.9	428.0	**423.0**
Industrial raw materials, daily index (BLS, 1947-49 = 100)	††73.2	96.7	92.7	92.7	**92.2**
Foodstuffs, daily index (BLS, 1947-49 = 100)	††75.4	83.4	86.7	85.9	**85.1**
Print cloth (spot and nearby, yd.)	17.5¢	18.6¢	17.9¢	17.9¢	**17.9¢**
Finished steel, index (BLS, 1947-49 = 100)	††76.4	168.6	†181.5	181.5	**181.5**
Scrap steel composite (Iron Age, ton)	$20.27	$57.50	$53.83	$53.50	**$53.00**
Copper (electrolytic, delivered price, E & MJ, lb.)	14.045¢	39.970¢	28.980¢	28.480¢	**28.380¢**
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.)	$1.97	$2.21	$2.14	$2.09	**$2.12**
Cotton, daily price (middling, 1 in., 14 designated markets, lb.)	**30.56¢	33.00¢	34.00¢	33.69¢	**33.57¢**
Wool tops (Boston, lb.)	$1.51	$1.83	$2.22	$2.22	**$2.22**

FINANCE

500 stocks composite, price index (S&P's, 1941-43=10)	17.08	48.25	48.55	46.44	**45.45**
Medium grade corporate bond yield (Baa issues, Moody's)	3.05%	3.95%	4.73%	4.81%	**4.83%**
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate)	¾-1%	3¼%	3⅞%	4%	**4%**

BANKING (Millions of Dollars)

Demand deposits adjusted, reporting member banks	††45,820	54,697	55,167	55,096	**54,683**
Total loans and investments, reporting member banks	††71,916	86,051	87,090	85,955	**85,834**
Commercial and agricultural loans, reporting member banks	††9,299	29,029	32,070	31,742	**31,958**
U. S. gov't guaranteed obligations held, reporting member banks	††49,879	27,199	25,642	24,821	**24,635**
Total federal reserve credit outstanding	23,888	25,254	25,641	25,124	**25,102**

MONTHLY FIGURES OF THE WEEK

		1946 Average	Year Ago	Month Ago	Latest Month
Private expenditures for new construction (in millions)	July	$8.03	$3,107	$3,004	**$3,047**
Public expenditures for new construction (in millions)	July	$197	$1,313	$1,343	**$1,356**
Cost of living (U.S. Dept. of Labor BLS, 1947-49 = 100)	July	83.4	117.0	120.2	**120.8**
Personal income (seasonally adjusted, in billions)	July	$178.0	$325.6	$344.8	**$345.5**
Farm income (seasonally adjusted, in billions)	July	$16.9	$14.9	$15.5	**$15.4**
Bank debits (in millions)	July	††$85.577	$181,284	$193,303	**$200,547**
Imports (in millions)	June	$412	$1,034	$1,104	**$983**

* *Preliminary, week ended August 17, 1957.*
† *Revised.*
†† *Estimate.*
** *Ten designated markets, middling 15/16 in.*
§ *Date for 'Latest Week' on each series on request.*

THE PICTURES—E. Cannel—30; Grant Compton—cover; Daystrom, Inc.—162; Art Fillmore—152, 153, 155; George Harris—56, 57, 66 (rt.); McGraw-Hill World News—131; Perfect Circle Corp.—38; Robert Phillips—25, 26, 27; Joan Sydlow—78, 80, 81.

You Can Count On... to Pay Off!

Series 1205
Reset Magnetic Counter

It's the **Original Equipment* idea . . . which simply means that, when you're figuring on electrical or mechanical counters in any new product, it pays to *design them in, when you begin.*

For then Veeder-Root quite likely can save you time and money by adapting or modifying a *standard* counter to your needs, instead of a special which you might specify on your own. This solves the counter problem . . . and saves you time in engineering, purchasing and assembly.

What's more, you give your product new sales-advantages: Direct-reading digits, instead of hard-to-read dials and verniers . . . instant remote indication if needed . . . up-to-the-minute performance records that serve as a basis for production-*Count*rol, and as proof of your performance guarantee. So don't let counters take a back seat in your new-product plans. *Design them in, when you begin . . .* it pays in many ways. Do you have the newest Veeder-Root Catalog? Write

Everyone Can Count on

Veeder-Root

INCORPORATED

Hartford, Conn. • Greenville, S. C. • Chicago • New York
Los Angeles • San Francisco • Montreal
Offices and Agents in Principal Cities

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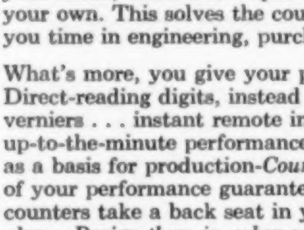
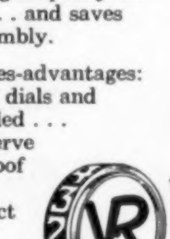
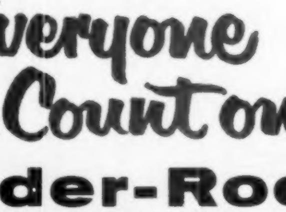


Series 1380
Box-Type Counter (Ratchet, Revolution, or Geared)



4-bank Counter for Radio Transmission Equipment



360-degree Bearing Counter

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BUSINESS WEEK • AUGUST 24, 1957 • NUMBER 1460

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POSTMASTER . . . Please send form 3579 to Business Week, 330 W. 42nd Street, N. Y. 36, N. Y.

READERS REPORT

A Budgeting Problem

Dear Sir:

The people who invented the Monthly Investment Plan [BW—Jul.13'57,p76] apparently missed a very important point concerning their potential customers. The person who invests in anything (including stock) is the person who avoids buying on the installment plan because of the excessive cost involved. When viewed strictly from the standpoint of cost, the Monthly Investment Plan is strikingly similar to installment buying. It is just as easy to budget your income for a yearly stock purchase as it is to budget for yearly (rather than quarterly) insurance premiums.

ROGER L. CASON
CHARLESTON, W. VA.

New Factor

Dear Sir:

Maybe the Old Answers Don't Work [BW—Jul.27'57,p168] on present "rising wages and prices" because there is a relatively new factor at work.

This factor is the many new "cost-of-living" wage adjustments now functioning.

Once they start, they constitute an automatic, built-in guarantee of a small but continuing inflationary effect, perhaps nearly as great as we have been experiencing the past few years.

WILLIAM C. WHITE
SCHENECTADY, N. Y.

Well Done

Dear Sir:

As a former Austrian editor and economist, I read with great interest your article Austria's Investors Given a Look-in [BW—Aug.3'57,p95]. It is objectively and well written.

MAURICE FELDMAN
NEW YORK, N. Y.

Special Circumstances

Dear Sir:

Re your Why the Guesses Go Haywire [BW—Jul.20'57,p28], the problems of forecasting future population growth and its economic implications are difficult enough without adding needlessly to the confusion. The disparities you cite between the forecasts of the early postwar years and those of today are much less startling if we consider that they are mainly

WHAT MAKES CHESSIE'S RAILROAD

G R O W ? *One of a series telling what Chesapeake and Ohio is doing to make this a bigger, better railroad.*

How C&O got its trade mark

Chessie first appeared in Chesapeake and Ohio's advertising 24 years ago, as a symbol of C&O's traditionally smooth track.

There *is* a difference in the way this railway is maintained. But it isn't done merely so that Pullman passengers can "sleep like a kitten"®.

The Abbott Tie Machine, developed by C&O personnel, automatically removes and replaces ties without disturbing adjacent roadbed, thus permitting trains to continue operation without delays.

The high standard of C&O's programmed maintenance is good business for both the railroad and its shipping customers.

Over smooth track (new rail was laid on more than 2,100 miles of track within the past ten years) coal and merchandise freight trains roll faster, more safely, and require less power. This smooth, fast transportation is a plus for freight shippers. They know this and prefer C&O's dependable service.

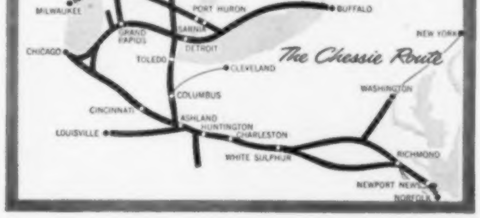
But a good roadbed is only one factor in providing better railroad service. In the past decade, C&O has invested more than a half billion dollars in new cars, new yards, new piers, new signal systems, new car building facilities and other improvements that contribute to more efficient operation and better transportation service for Chessie's customers.

With its thinking geared to tomorrow and the courage to translate vision into reality, Chessie's railway keeps growing and going!

Would you like a portfolio of pictures of Chessie and her family? Write to:

Chesapeake and Ohio Railway

3804 TERMINAL TOWER, CLEVELAND 1, OHIO




AK
L-S
T-Z

"But nobody dies on purpose, Cal!"

Cal: It couldn't be worse if you'd planned it that way.

Dan: But I left my business to the family. What happened?

Cal: Estate taxes, Dan. Inheritance taxes.

Dan: I don't understand. What about my credit?

Cal: A-1, Dan. But—ahem—*you're* gone.

Dan: Oh. You mean, the bank wouldn't —?

Cal: No, they wouldn't. I had to sell the business.

Dan: Oh.

Cal: I told you to consult your attorney. Your banker, too

Dan: I remember. Business insurance.

Cal: Business insurance by Equitable.

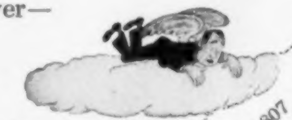
Dan: I know, I know.

Cal: Just as important as planning production quotas.

Dan: Enough, Cal. You'll do your best?

Cal: You know I will, Dan. But my best will be a salvage operation.

Dan: If I had it to do over—



Living Insurance for Business by Equitable

X-8

FREE BOOKLET

Equitable Life Assurance Society of the U.S.
393 Seventh Avenue, New York 1, New York—Room 1807
Please send me Equitable's new booklet which explains how *Living Insurance* can help solve many common business and tax problems.

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STATE..

CURTISS-WRIGHT

The new CURTISS-WRIGHT *ZEPHYR* JET ENGINE

Air transportation must become quiet not only for its passengers, but for the communities in which it operates. The development of the Curtiss-Wright Zephyr Turbojet was based on the premises: 1 – that its technical excellence must provide a worthwhile performance improvement; 2 – that its advances must be sound in the final analysis from the economic point of view, and; 3 – that it must have a high order of public acceptance, not only from the viewpoint of the passenger, but the communities in which the airport is located and over which the airplane is operated. Moving airports further out of town with its attendant expense and the inconvenience of time lost in additional city to airport transportation is not the answer.

Curtiss-Wright Corporation has completed sufficient testing with the "Zephyr" to warrant the statement that the jet engine transport can be quiet and have a high order of public acceptance.

New Testing Procedure

The testing procedure for the Zephyr is new and novel. Curtiss-Wright discarded the standard jet engine test cell – a mass of concrete, steel, sound absorption, water silencing, etc. – and transferred the testing of the Zephyr to an open air test stand in which the engine is run with no silencing or sound absorption equipment under a specification calling for a minimum of noise, as well as a minimum of fuel consumption, just as the engine would run when it is in an airplane at the airport.

This outdoor testing equipment consists of two mobile vehicles; one on which the engine is mounted for tests; the other housing the control room and instrumentation required to measure thrust, fuel consumption and other equipment. Through the use of these mobile vehicles, the Zephyr is constantly being tested and demonstrated at airports and at off-highway locations to record and analyze its noise levels under idling, taxiing and full throttle conditions. This practical method of testing enables engineers and technicians to change new noise suppressing devices being developed and other equipment quickly and with ease.

The engine may be held at a given set of conditions so that technicians and observers can listen to, record and analyze noise levels for extended periods of time, and, while they are doing this, engine operating conditions can be changed instantly for purposes of demonstration. This method is preferable to listening to an airplane passing overhead where the noise is reduced or muffled, where the time for measuring and recording the volume of noise is limited and where it is difficult to fix the distances and conditions with any degree of accuracy.

Curtiss-Wright plans to demonstrate the mobile testing unit and the Zephyr engine at airports and other locations in the U.S. A request has been received to demonstrate the unit at a major airport in Europe.

Quieter Than Piston Engine

A jet engine transport can be quieter than a piston-engine airplane. For example, Curtiss-Wright has been able to minimize the compressor whine of the jet engine. This is the lesser in decibels of the two principal sources of noise from a jet engine, but, in a practical sense, its frequency and characteristics are something like a siren and more objectionable to some people than the jet noise which is of a lower frequency. Curtiss-Wright has also reduced the jet exhaust noise to acceptable levels because basically the engine is designed so that the mass of air passing through the jet to produce thrust is moving at a lower speed than that common to engines developed for military use at supersonic speeds. For the foreseeable future airlines will fly subsonically, and, therefore, there is no need for using supersonic speed jet engines, with their disadvantages, for jet airline operation.

Broad Research Program

Engine noise suppression, while the major element, is only one phase of the Curtiss-Wright program to lower noise levels for aircraft and airport communities. The mobile control room used in the Zephyr tests is lined with Curon, a new sound absorbing, multi-cellular, foamed material developed by Curtiss-Wright. This enables engineers to conduct concurrent tests of new methods of soundproofing aircraft passenger cabins. The same Curon can play an important role in absorbing ground noise at airports where jet and other aircraft are operated. For example, a curtain of Curon hung between runways and buildings will substantially reduce noise at the building. And Curon, in the form of wall tiles, ceiling and floor coverings, can further absorb sound and result in quieter air terminals and offices than ever before.

These are but a few of the technological developments of the Curtiss-Wright Corporation designed to make the introduction of jet airliners to the world airways quieter, more comfortable and economically sound. Others will follow.

This advertisement is published in response to the public interest in the Zephyr Jet engine reflected by numerous inquiries received from individuals and governmental authorities at every level.

CORPORATION **WOOD-RIDGE • NEW JERSEY**

the result of two special sets of circumstances: The continuing "baby boom" in many Western countries, the first significant reversal of declining fertility in this region in a century, and the remarkable fact that mortality in much of Latin America, Asia, and Africa is declining at rates which are completely unprecedented by past experience. . . .

No doubt pride comes before the fall, but it seems unlikely that the forecaster will again be confronted with so concentrated, unexpected and simultaneous a combination of shocks.

As to the Woytinsky projection of a 3.6-billion world population by the year 2050, no demographer I know has accepted this as even approximately reasonable. The Brown-Bonner-Weir projection of 7-billion is certainly more persuasive. . . .

GEORGE J. STOLNITZ
DEPT. OF ECONOMICS
INDIANA UNIVERSITY
BLOOMINGTON, IND.

• We hope future population projections live up to Reader Stolnitz's high expectations.

Casting the First Stone

Dear Sir:

On page 5 of your issue of July 27, Mort Friedlander says that "while employed as a worker" in a large company he "ran across" some instances of personal work being done for company executives at company expense.

As a worker, how would he know that the services weren't billed to the executive in question? From my knowledge it would be the exceptional case that wasn't invoiced.

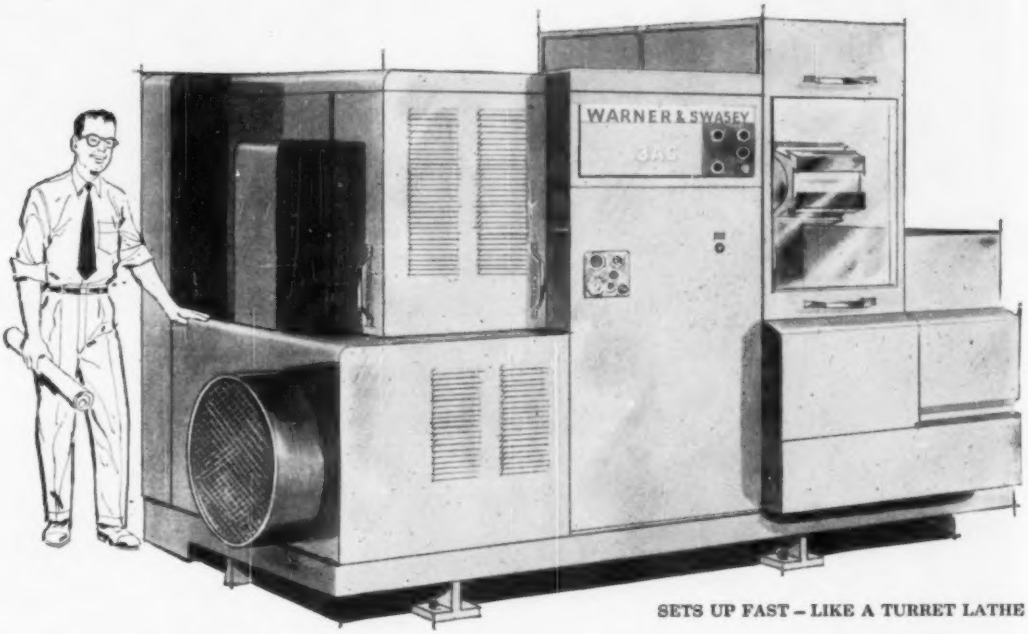
By contrast, many employers agree that a lot of pilfering goes on in their plants. Taps disappear from shower and washrooms; small motors are dismantled and taken out piecemeal; many employees' summer cottages are partially built from pillaged material.

. . . Now that Mr. Friedlander is president of a company, does he get free service from it? If not, why accuse others? Let him remember the Biblical injunction about casting the first stone.

R. A. MEAGAN
TORONTO, ONT.

Letters should be addressed to Readers Report Editor, BUSINESS WEEK, 330 West 42nd Street, New York 36, N. Y.

NEW...



SETS UP FAST – LIKE A TURRET LATHE

Warner & Swasey 3 AC Single Spindle Automatic Chucker widens field of profitable turning jobs

This versatile, new model was engineered for fast, automatic machining of your larger, complex chucking jobs. It provides accuracy, metal removal capacity, tooling flexibility and set-up ease and speed heretofore unobtainable by automatic operation in this work range.

For over eight years, enthusiastic users have told us, "Performance records of our Warner & Swasey Single Spindle Chucking Automatics have been phenomenal."

The 1 AC model, first introduced at the 1947 Machine Tool Show in Chicago, met with instant field acceptance. In 1953 — 88 customers placed orders for the 2 AC model before the first machine was ever built!

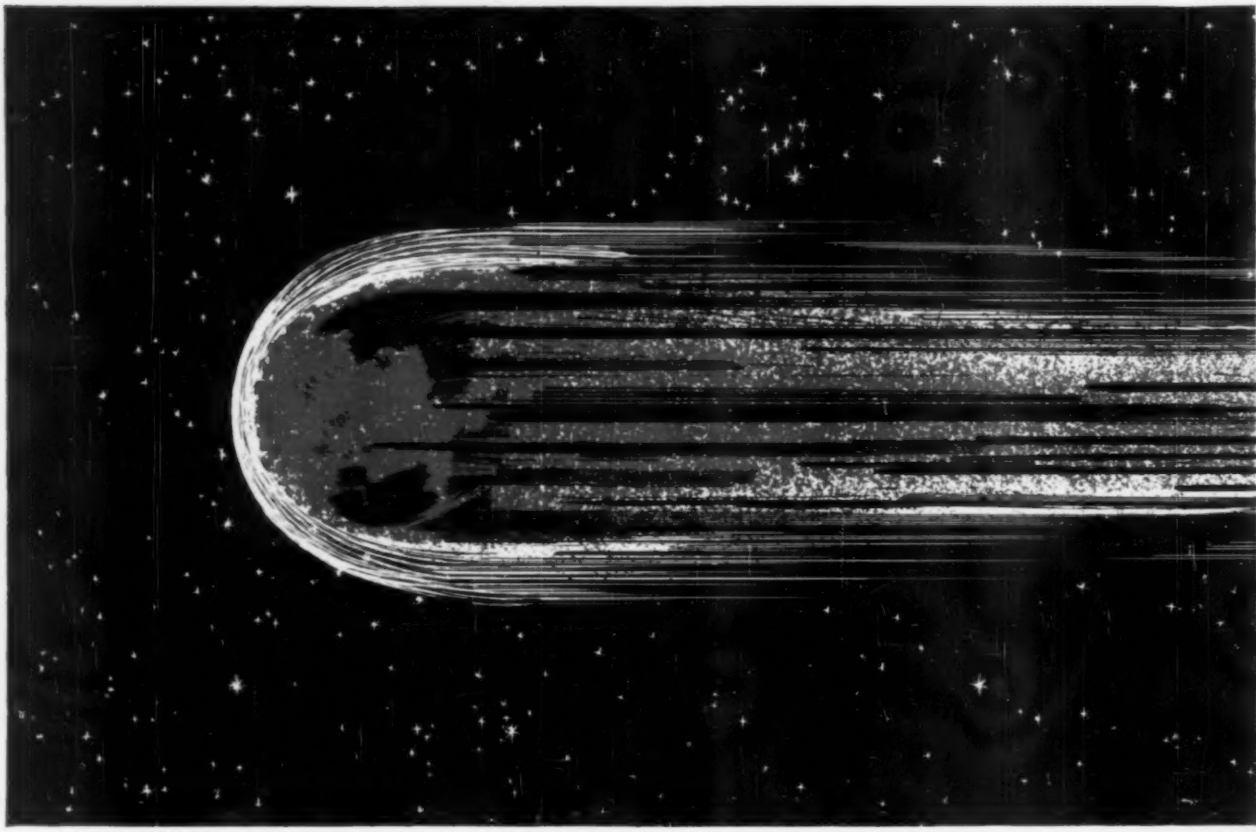
Now, Warner & Swasey announces a new, larger capacity, more powerful 3 AC model with a 15-inch diameter chuck and a 40-horsepower motor, which will provide fast, automatic production for your larger pieces — precision and otherwise — in all lot sizes.

Our Field Representative will be glad to give you complete details on how this new machine can increase profits on your operations. Why not call him in, today?

WARNER & SWASEY
Cleveland
PRECISION MACHINERY SINCE 1880

No Matter Which Way You Turn... Warner & Swasey Cuts Costs

Budd **CREATING THE FUTURE**



racing the meteor

At supersonic speeds, aircraft and guided missiles generate tremendous heat from surface friction. How to keep them from disintegrating, as speeds increase, becomes a problem of material and design.

To aid the aircraft industry in this field, where new types of lightweight, high strength airframes and structural components must be developed, The Budd Company's Defense Division is bringing exceptional experience in the design and fabrication of metals. This Budd activity is also engaged in the development of nuclear equipment for commercial and military purposes. Engineering and metallurgical research are supported by modern manufacturing facilities.

This is an expansion of Budd's participation in the aircraft industry, which for several years has included the manufacture of afterburners and other structural components for jet engines.

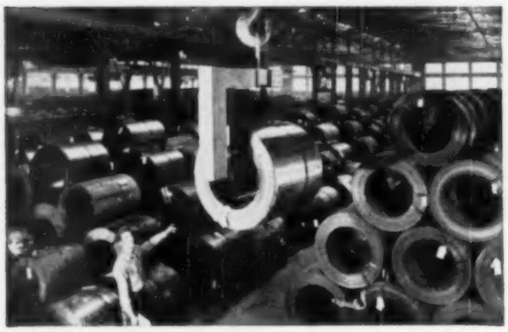
3 important check points on steel suppliers

FOR MANAGEMENT CONSIDERATION

In 1917 Ryerson already had 75 years of steel-service experience

DEPENDABILITY AND EXPERIENCE—Is your company establishing a sound business relationship with a supplier of steel from stock who will be willing and able to furnish steel at fair prices next year or five years from now under all market conditions? And is your company dealing with a supplier who can give you the benefit of experience gained in working with tens of thousands of other companies whose problems of steel purchasing, selection and fabrication may be similar to yours?

The supplier with the broadest experience is Ryerson—the nation's largest steel-service organization with a 115-year record of dependable performance.



A small part of the huge steel stocks at one Ryerson plant

CAPACITY TO SERVE—Consider this recent example: It was 10 after 5 P.M. The phone rang and a steel buyer 80 miles away said: "I've got to have 60,000 lbs. of slit coils first thing in the morning." Impossible? Not at Ryerson. The needed steel was on hand in Ryerson stocks—the nation's largest, by far. Unequalled processing equipment was put to work. And during the night coils of two different gauges were slit to size requirements. Early the next morning the steel was delivered as promised—80 miles away. This kind of service takes great capacity—and Ryerson has it.

Spark testing Ryerson bar stocks to avoid mixed steels

QUALITY OF PRODUCT—Mislabelled steel cannot pass skilled Ryerson inspectors who "read" steel sparks to determine carbon content and alloying elements with amazing accuracy. And spark testing is typical of the exacting attention given to quality control at Ryerson. As a result you are sure of getting the third important requisite of satisfactory steel service—steel of known, uniform high quality, accurate in size, gauge, length and weight, and right for your particular application.

In stock: Carbon, alloy and stainless steel—bars, structurals, plates, sheet and strip, tubing, reinforcing steel—aluminum, industrial plastics, metal-working machinery, etc.

RYERSON CERTIFIED QUALITY

RYERSON STEEL

JOSEPH T. RYERSON & SON, INC. PLANTS AT: NEW YORK • BOSTON • WALLINGFORD, CONN. • PHILADELPHIA • CHARLOTTE • CINCINNATI CLEVELAND • DETROIT • PITTSBURGH • BUFFALO • CHICAGO • MILWAUKEE • ST. LOUIS • LOS ANGELES • SAN FRANCISCO • SPOKANE • SEATTLE

BUSINESS OUTLOOK

A BUSINESS WEEK SERVICE

Inflation talk is due to calm down a bit, at least temporarily.

July's cost-of-living figure, announced this week, marks the fourteenth month of successive new highs—but there will be little if any rise from now to yearend.

Seasonal factors are now working for the consumer on prices, and the big price-raising wage adjustments are behind us.

Food costs, as everyone must know by now, have played the biggest part in raising living costs for more than a year.

Now, however, there's every reason to expect foods to work lower.

Meats, in fact, probably hit their top early in August. Both pork and beef now are edging lower under the late summer rise in slaughter runs.

Housewives may detect no more than a leveling off in bills, but prices of processed foods at wholesale turned lower a month ago.

Moreover, even the boosts in steel and aluminum have brought no appreciable rise in prices of industrial goods at wholesale. This index has been virtually unchanged ever since last February.

Rises in the cost of living, to the extent that there are any over the remainder of this year, are likely to be limited to the rather loosely defined areas of housing, transportation, and other services.

Rents and services never seem to stop rising (and prices paid always jump with the auto model change even if price tags are up but little).

—•—

Do you begin to get a vague scent of autumn upturn in the air?

It isn't pronounced as yet. **Nevertheless, Detroit is astir as truckloads of new Edsels reach dealers (page 28).** And this week brought news of some rehirings by appliance makers.

These may not be the harbingers of a consumer rush for hardgoods. Yet they raise hopes for larger steel orders, more factory jobs.

Auto dealers seem to face the 1957 model-year cleanup calmly.

They are quite satisfied with stocks a bit bigger than a year ago—as insurance that they'll have something to sell this fall. A lot of them ran out of 1956 cars during last year's hysterical final rush.

And they welcome the bonuses forthcoming at this season. These give dealers the cushion for "the best deals ever" plus a mite of profit.

Available figures on appliances may not tell the whole story, but they at least indicate that there is room for some improvement.

Retail dollar volume has at least been keeping up with last year.

Meanwhile, production through June was cut fully 12½% to help relieve the troublesome inventory situation.

—•—

Strength in over-all business (or, to put it another way, the ability of some segments to make up for other's weakness) still is evident.

BUSINESS OUTLOOK (Continued)

BUSINESS WEEK
AUG. 24, 1957

The new report by the Federal Reserve Board marks June up one notch over the earlier estimate and places July at the June level.

Production for both months registers 144 on the board's index.

Figures on output now profit by comparison with the steel strike period last year. Nevertheless, it is significant that the Federal Reserve Board's index each month this year has topped the like 1956 mark.

With even a modest autumn upswing, the average level for 1957 is assured of bettering the record set last year.

Durable goods output, bellwethered by production equipment, has stood out in this year's gains, of course. Nevertheless the oft-bemoaned consumer hardgoods lines have done a little better this summer than last, while softgoods have consistently been a point or two higher.

—•—

Production valued in dollars, benefiting by price rises, continues to top last year by a wider margin than physical volume.

The value of national production (both goods and services) at the second quarter's annual rate is now placed at $434.3-billion—up moderately from the earlier estimate of $433.5-billion.

And the rate of gain over a year ago is but little changed—plus 5.7% for the second quarter as compared to 5.9% for the first.

—•—

Here are some characteristics of the last 10 years' record in production and employment that are worth noting:

- Durable goods output has risen more than 60% above its 1947-49 average with a gain of only 13% in the number of production-line workers.
- Softgoods output is 30% ahead while workers number 5% less.

—•—

Profitability of business, even if the second half of the year measures up to expectations volumewise, remains a moot point. You see that clearly in the recent tumble taken by the stock market (page 142).

And the uncertainty of profits (along with the need for conserving working capital) also seems to be leaving its mark on dividends.

Payments to stockholders will rise again this year, but the rise may be little more than $400-million (the smallest in either dollar or percentage terms since 1953) to a total of $12½-billion.

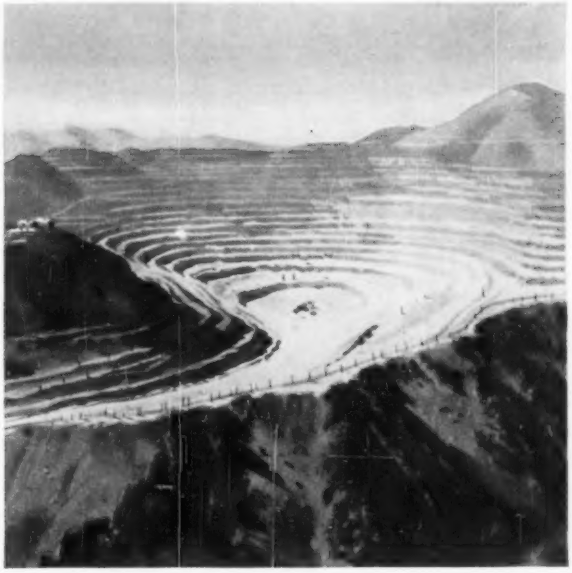
The 1954-5-6 average annual gain was nearly $1-billion.

—•—

Machinery manufacturers seem little worried about incoming business, however many qualms some outside observers may feel.

Makers of nonelectrical machinery report to McGraw-Hill's Department of Economics that third quarter bookings should be 17% above second quarter (though it might be noted, as far as the second quarter was concerned, that they overestimated new orders by about 4½%).

As was true three months ago, they expect third quarter volume to be a peak but the subsequent slide will be slow.



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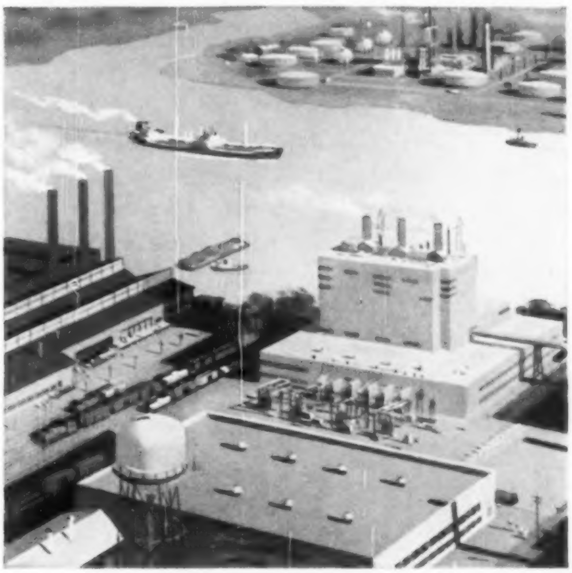

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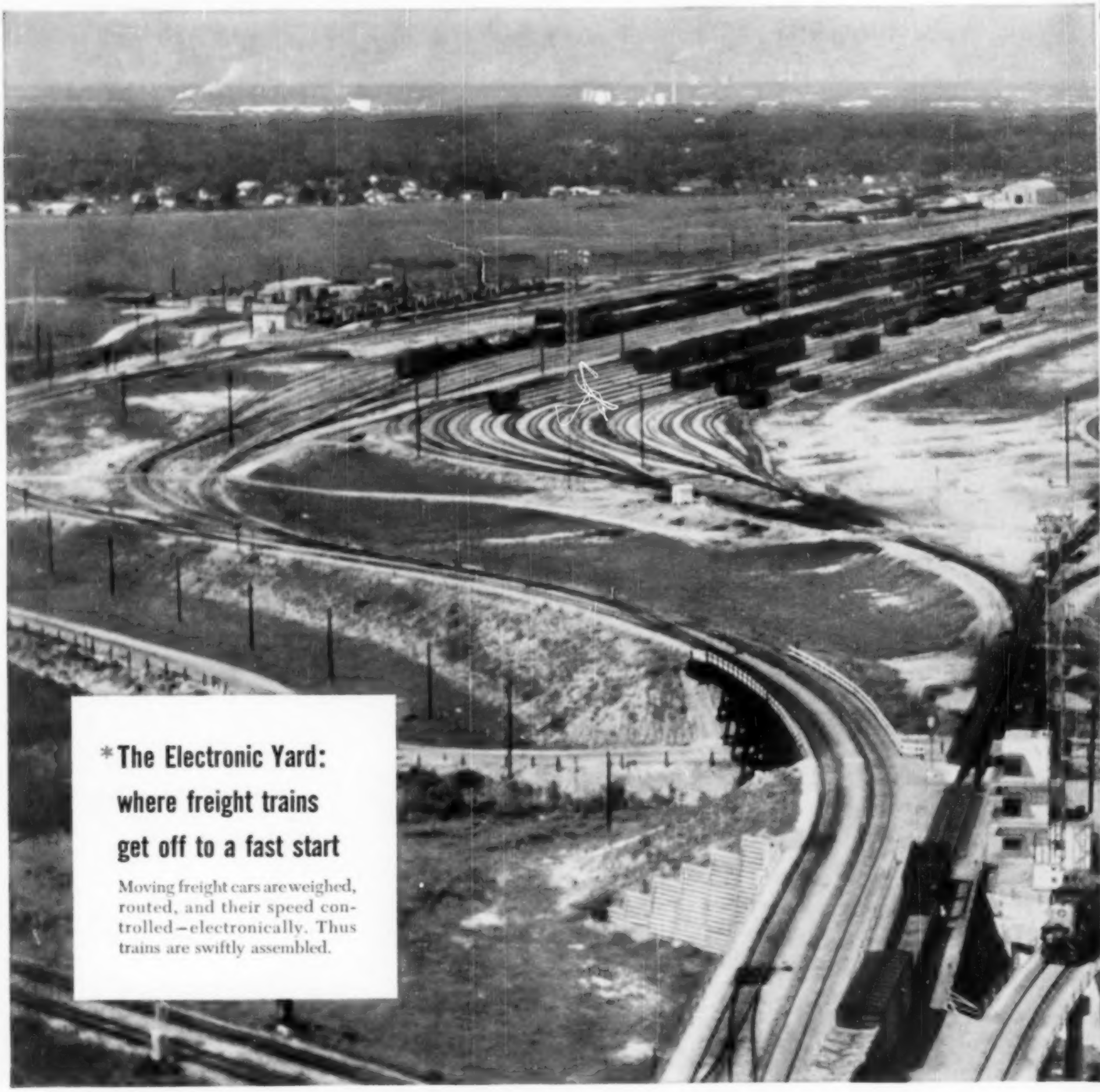


More Railroad Progress like this depends on adequate earnings

Photo by Charles Rotkin

BUSINESS WEEK

AUGUST 24, 1957
NUMBER 1460

Tight Money Foes Cease Fire

With its quizzing of Fed Chmn. Martin (above) still incomplete, the Senate Finance Committee recessed the inflation hearings—amid signs of flagging Democratic interest.

THE SENATE Finance Committee this week recessed its sweeping inquiry into the causes of inflation—with the adjournment rush as a reason. But there are signs that lessening Democratic interest in the proceedings may also be involved.

Chmn. Harry F. Byrd (D-Va.) said hearings will be resumed in the fall. Republican members are predicting it will be January. In either case, the witness will again be William McC. Martin, Jr., chairman of the Federal Reserve Board, who has testified at the last six sessions.

Martin will come back for at least another week of testimony. Only one Democrat and four Republicans out of a committee of 15 have questioned him thus far. He may be followed by John W. Snyder, Treasury Secretary under former Pres. Harry S. Truman.

• **Missing Zeal**—When the hearings began 10 weeks ago, Democrats opened with a rush. They slashed into Administration economic policies, particularly the use of tight credit as an anti-inflation device. They openly predicted that tight money would be their strongest issue in next year's elections, and they were out to make a case.

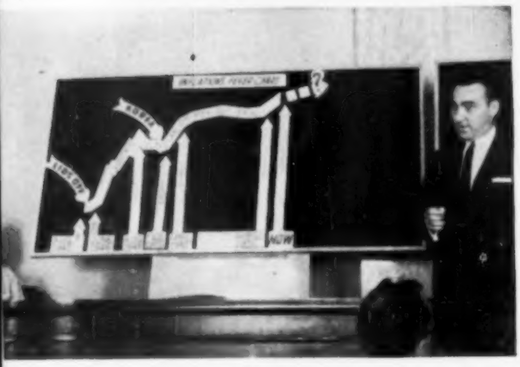
But most of their original zest has evaporated. In the past couple of weeks, for example, there has been a marked falling off in Democratic attendance at the hearings. Much of the time, the only Democrat present has been the questioner himself. Chmn. Byrd frequently calls the committee to order, then slips out. At one session he waited half an hour for Sen. Russell B. Long (D-La.) to show up and question Martin, finally turned the proceedings over to one of the Republicans.

Sen. Paul Douglas (D-Ill.), formerly a professional economist and one of the Democrats' leading spokesmen on

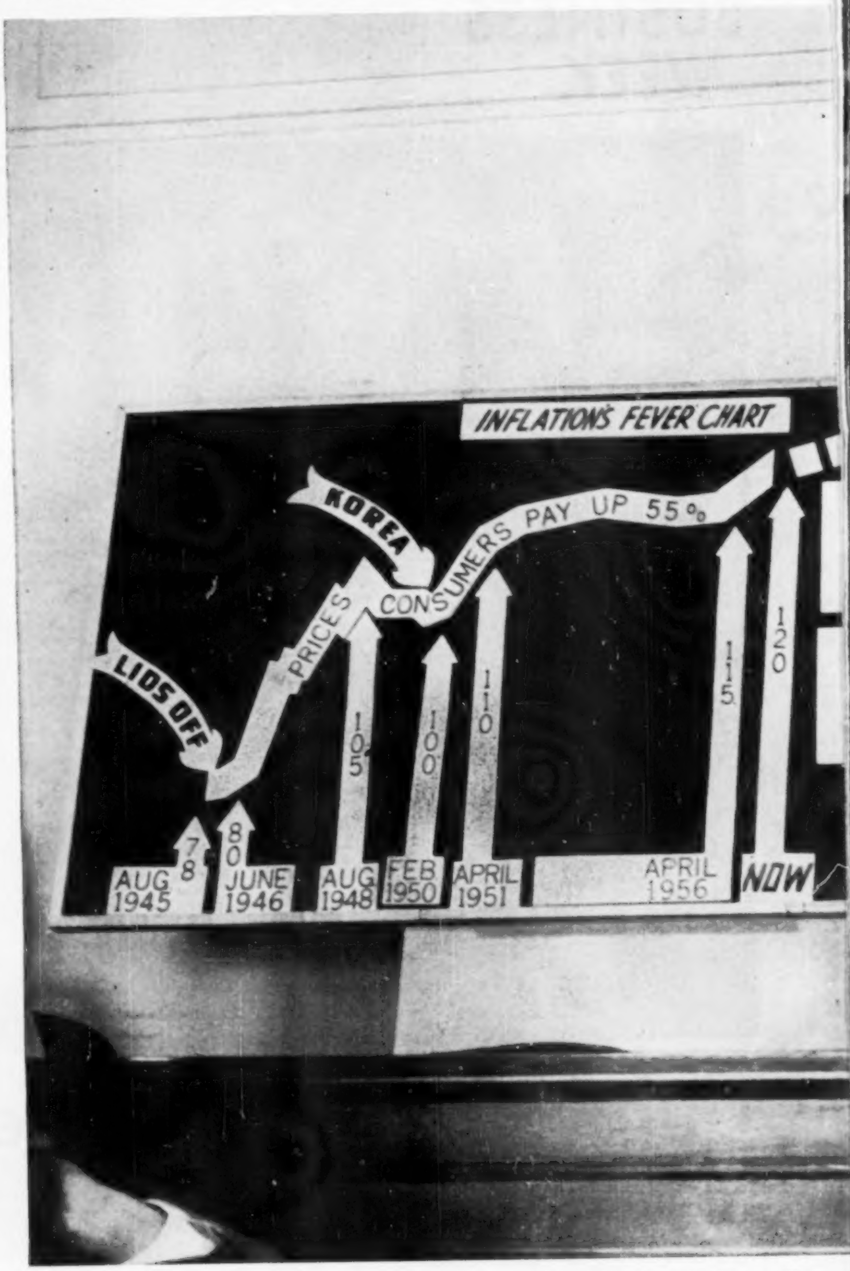
The Fed Turns Teacher to Give Senators

SAGA of U.S. price rises—as told to the Senate on Fed charts—starts in 1946 . . .

. . . CONTINUES to the 1949 dip, followed by new climbs during Korea, and . . .



. . . CONCLUDES with today's peak. Then come definitions of inflation and deflation.



SENATORS were attentive while economic forces were explained in classroom terms. The

monetary and fiscal matters, has not attended a session for weeks.

Sen. Robert S. Kerr (D-Okla.)—the hardest-hitting critic of the Fed's tight money policy when the hearings began—passed up his first chance to question Chmn. Martin last week. So did Sen. Byrd.

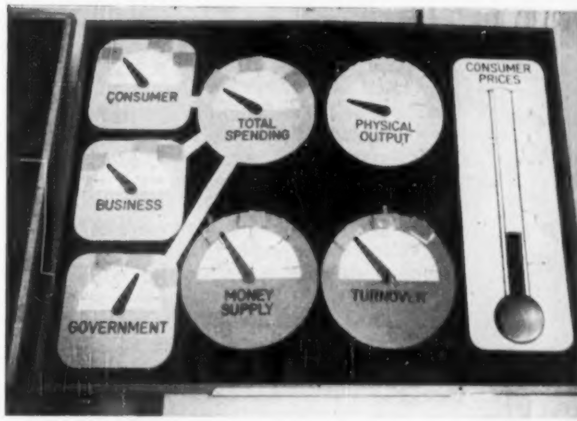
• **Lively GOP**—Republicans, in contrast, are picking up new life as the hearings wear on. A hard-core GOP group—consisting of Edward Martin (Pa.), John J. Williams (Del.), Frank Carlson (Kan.), and Wallace F. Bennett (Utah)—attends practically every session. Bennett—a former Salt Lake City manufacturer and auto dealer—is emerging as probably the liveliest defender of the Administration and the Federal Reserve. He frequently supplies his GOP colleagues with questions to put to the witnesses. What's more, he has begun to take on Democratic critics of tight money in TV debates.

There's no indication that Democrats are heading toward any serious legislative proposals even when the hearings are over. Sen. Long has come the closest, with a suggestion—made on a TV program—that Congress could pass a resolution instructing the Federal Reserve to loosen credit and lower interest rates.

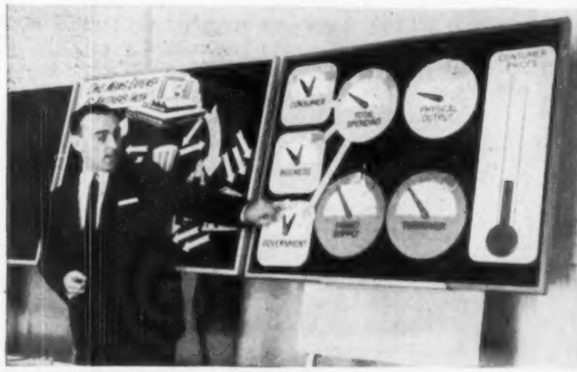
Republicans privately scoff at this. "It's been talked about in this committee casually and never gets anywhere," one senator said. One Administration backer believes that if such a resolution came to a vote "the easy money crowd

a Short Course in Inflation

show was originally prepared by Richmond Federal Reserve Bank for visiting students.



TO SHOW why prices rose, dials are set to indicate economic climate in 1946. Next . . .



. . . SPENDING—in this case by the government pushes the price thermometer . . .

. . . UP AND UP to today's levels, all because money supply exceeds output of goods.

wouldn't get more than 10 votes in the Senate."

• **Why the Switch?**—Several factors are at work to bring about the shifts:

• For weeks preceding the hearings, Democrats attacked tight money on the Senate floor. This left them with nothing new to say when the questioning of witnesses began. They've taken turns with former Treasury Secy. George M. Humphrey, Treasury Under Secy. W. Randolph Burgess, and now Martin. Their questioning is pretty much a rehash of two themes: (1) that rising interest rates are a cause of inflation, not a deterrent, and (2) that the U.S. is suffering some new kind of inflation and therefore needs new counter-measures.

• Republicans, usually weak in Senate debate on economic policy, have held their own in the committee sessions. Preliminary statements by Humphrey, Burgess, and Martin in defense of their anti-inflation policies have given Republicans ammunition that they had failed to develop on their own. The most persistent GOP line in the hearings has been that without tight money, prices would be even higher and inflation even more troublesome.

• There are signs of softness in the economy and questions about the business outlook for the next few months. This tempts Democrats to ease up and see what happens. If a downturn develops, they've got their scapegoat—hard money—already tagged. They'll accuse the Administration and the Federal

Reserve of using credit restriction to cause a recession. If expansion resumes and prices keep on rising, they can renew their attacks on the Administration for failing to halt inflation. But, in the interim, they can't very well do both.

Before the hearings began, majority leader Lyndon Johnson (D-Tex.) was calling tight credit a "ruinous policy" and "domestic issue No. 1." Many observers now feel that the issue has been blunted—so far as Democratic hopes go—and can be given new life only if business is soft by Election Day in 1958.

• **How Are We Doing?**—The current state of the economy was explored in two days of questioning this week, with Martin on the stand.

Sen. Long took up a new line of Democratic thinking: that the economy is actually developing so many signs of weakness that a monetary policy aimed at stimulating consumption is the real need. This idea was immediately challenged by Sen. Carlson for the Republicans.

Sen. Long hinged his case on these points:

Rising unemployment. Long pointed out that the recent level of around 3- to 3.3-million is "50% above what it was in 1952 and 1953." Then how, he wanted to know—can Martin argue that a shortage of labor is contributing to inflation?

Martin replied that it is only one of the contributing factors, and that shortages do exist in some skilled occupations (page 137). The next day, at the invitation of Carlson, he read into the record an analysis of unemployment statistics that pinned the current rise mostly to seasonal factors. The decline in unemployment from July to October—as students go back to their classrooms instead of looking for jobs—is usually around 700,000 to 800,000, he told the committee. This points to a possible unemployment level of around 2.2-million this fall. In that case, labor may again be in fairly short supply.

Slowing economic growth. Long said that, with the effect of price rises wiped out, expansion is proceeding at only about 1.2% a year, whereas it has averaged two and three times that rate in recent years. Arguing that we are producing "distressingly below what our rate of expansion ought to be," he tried to get Martin to agree that what was needed was more consumer spending. Martin said no—that what was needed was less consumer spending, and more saving.

Long got one word of consolation from Martin: Once the inflationary trend clearly is halted, the Federal Reserve will use its powers to ease credit.

• **Carlson's Approach**—When Carlson took over, he referred to a statement issued in Chicago by the AFL-CIO that attacked the Federal Reserve's tight money policy as "blundering dangerously," and "designed to hasten a recession." Carlson pointed out that Leon Keyserling, once chairman of the Council of Economic Advisers under Pres. Truman, had conferred with the labor group in Chicago. Keyserling, also a consultant to several Democratic senators on the Finance Committee, was in the audience during Carlson's questioning.

The labor statement declared the U.S. had lost "$60-billion worth of production" because of the slowdown in expansion.

"What would have happened," Carlson asked Martin, "if that much additional production had been poured out?" A substantially faster price rise, Martin said.

In a situation such as the present, more production will not end inflation, he elaborated. The cure, he insisted, is less spending by government and more saving by consumers.

• **A Glance Ahead**—Carlson led Martin to hazard a fleeting look ahead. "Will even higher interest rates be necessary?" Carlson asked.

Martin said he didn't know, but that he hopes interest is reaching a leveling-out point. There are now some soft spots in the economy he said, and savings are increasing. He is inclined to think we may be close to the end of the upward swing of rates.

If the expected demand for loans does not materialize this fall, he pointed out, then the commercial banks will have been proved in error when they raised the prime rate to 4½% two days before the Federal Reserve began raising the discount rate. In such a case, both the new prime rate and the new discount rate would drop, he added.

The Edsel Sheds Its Wraps

With the public announcement day near, the security blanket around Ford Motor Co.'s new Edsel is coming loose, as cars appear undisguised on the street, where this was photographed. Sales start officially Sept. 4 in some 1,184 dealerships. Prices, not disclosed at midweek, will likely range from around $2,400 to about $3,800 in four models. Strikingly new features are mostly in the appearance. Biggest mechanical innovation is perhaps the pushbutton transmission selector in the center of the steering wheel.

Cutbacks Bring on the Jitters

● The Pentagon's first wave of cutbacks and stretchouts is having a visible impact on U. S. industry.

● The signs are showing up all over the nation, in labor layoffs and in contractors' relations with subcontractors.

● To offset the loss of defense work, many companies are mapping a road back to the civilian market.

U. S. industry continues to shudder as the Pentagon continues to whack away at military spending. The queasiness stems from two factors:

• The Defense Dept.'s efforts to cut back military expenditures to $38-billion is playing havoc with many companies that have depended on defense work.

• There's a sudden fear that the prop of defense spending is being sawed off just when the economy had lost its zip, and that perhaps this heralds the end of the "gravy train."

• **How Long**—Just how long the current attack of shakes will last is not certain. It could endure through the fourth quarter, even into the first quarter of 1958, if Pentagon officials have their way. According to Defense Dept. planners, the fourth quarter should find military spending at the $38-billion target.

At first blush, Defense's intent to stay within its designed budget doesn't sound too exciting. But defense spending is running at a $42-billion-a-year clip, and a cutback means a drop of $4-billion. If the Pentagon is to achieve a $38-billion annual average, it will have to shear spending to a $34-billion rate in the first quarter of 1958. With this in mind, industry has just cause for worry.

• **Impact on Business**—Already, the current round of cuts and stretchouts—contracts rescheduled for later delivery—is having a visible impact on business:

• Labor layoffs are cropping up in the aircraft industry (page 137), which has had a terrific jolt from canceled projects and stretchouts. General Dynamics' Convair Div., for example, has laid off 4,000 men since the end of June.

• Many companies are beginning to shift from defense work to commercial business.

• Stretchouts in delivery time, on top of the recent 5% cut in progress payments on contracts (BW—Aug.17 '57,p26), have company financial brains in a whirl. In the past, the services paid 75% of total costs on account, including overhead, before delivery of weapons and equipment. From here on, the progress payments will be only 70% of total costs. Companies must fork up more of their own capital to operate. In a tight money market, "that's a cheap shell game," says one disgruntled contractor.

• Prime contractors are beginning to study each new job, to determine whether they can do it themselves instead of farming it out to subcontractors. Some subs who haven't the setup to change to other jobs if prime concerns pull back work could be backed right out of business.

• **Who Gets Hurt**—Signs of these strains appear all over the nation. The West Coast, of course, heart of the aircraft industry, is hit the hardest. The Southwest with it complex of aircraft, oil, and electronics companies also has suffered. Uneasiness is evident, too, in the big cities of the East and Midwest. It's a rare instance—when a manufacturer praises Defense for its pruning.

Within this general framework, however, each defense contractor has been affected differently, depending upon the amount of defense business he carries and his product.

Broadly speaking, the big contractors, outside aircraft, haven't been damaged heavily. True, a number of them have had contracts canceled, and some stretched out. But most of these concerns keep defense business relatively low: A big electronics company, for example, more heavily embroiled in defense contracts than most, has about 16% of its total sales in defense work. And the defense contracts of these companies usually are so basic to national security there's little chance they might be tossed out. If they were, the dollar loss would not be great. In fact, one such corporation is gleeful over the thought of cutbacks. "We've had to divert valuable talent to take care of government contracts we never wanted. If those contracts were thrown out, we could go back to the business of making money again."

• **Preventive Medicine**—However, the picture is not that sanguine for all contractors. Many of them depend on defense work, if not for the bulk of their sales, at least to round out their volume. To these contractors, cutbacks mean violent reactions. American Bosch Arma Corp., an electronics maker, for example, suffered a dip in sales in the past quarter, and recently laid off 500 employees. The company now is switching emphasis from the production of hardware to research and development. A main concern of these contractors, too, is the secrecy surrounding the defense cuts. Says one Midwestern auto man: "The services are sitting as tight as the devil today. One of these days they're going to have to give us some answers; proposals can't be held open indefinitely."

For the big contractors, the cut in progress payments causes no great fuss. "We will use a little bit more of our resources in handling these jobs, but that may enhance our bargaining position when we renegotiate," said one contractor. These companies, of course, have money on hand and don't face the prospect of entering the tight money market.

On the other hand, smaller contractors, up to their ears in sizable bank loans, and contractors who need large amounts of working capital don't take kindly to the cut in progress payments. Boeing, for example, will need an additional $30-million in working capital under the new payments plan. And although the company has upwards of $60-million in credit to draw from, it will have to pay an added cost of about $1.5-million in interest—a charge that the government won't consider when computing overhead on defense contracts.

• **Subcontracting**—The touchiest problem all contractors face is that of their dealings with subcontractors. Many prime contractors stoutly maintain they haven't pulled back any work to their own plants—and just as many subcontractors maintain they have. The truth probably lies somewhere in between. (When asked to comment on the problem, Defense Secy. Wilson said: "It sounds like an old cracked Victrola record to me. I have heard it before through the years.")

Many aircraft concerns on the West Coast admit they're looking at each new job to see if it can be done in their own shops. Many of these manufacturers also say they're cutting out all dual subcontracting as they come across it. Under the recent stretchout in Boeing's B-52 output, for example, the company decided to place all its production in its Wichita plant and halt B-52 work at Seattle. In the process, it dropped one of its two engine nacelle suppliers, Bell Aircraft, retaining Rohr Aircraft Corp.,

San Diego, as its sole nacelle subcontractor.

• **Fuzzy Problem**—The matter of how much work prime military contractors are required to farm out to subcontractors is a fuzzy one. Prime military procurement contracts do not specify the exact amount of business to be subcontracted. But the larger contracts—for airframes, engines, and the like—almost always have a clause calling for "a maximum amount feasible" of subcontracting. What this normally boils down to is this: On engine procurement, about 55% of the dollars are subcontracted; on airframes, about 30%; and on missile projects, as much as 70%.

Many subcontractors feel they're not in a position to be hurt by pullbacks. Some have diversified their contracts widely enough not to be hurt. Others feel they're flexible enough to shift into nonmilitary jobs if necessary. Still others have specialties that make them immune to defense stretchouts. But many small subcontractors are feeling the pinch. And those who do subcontract work on production runs, such as tail and wing assemblies, are bound to get hurt soon.

To offset anticipated cutbacks and stretchouts, both contractors and subcontractors are looking afresh at commercial business. This is especially true in the aircraft field—and its suppliers. Aerojet-General Corp., for example, is developing products that have application in both fields—jet components that can be adapted to commercial aircraft if the military market drops. And Guardian Electric Mfg. Co., Chicago, a Boeing subcontractor, is keeping its defense-commercial ratio at 40%-60%. It used to be the other way around. Varian Associates, Palo Alto, with 63% of its sales in defense work (Microware electronics, radar, communications) also is bolstering its commercial sales.

• **Backlash**—Meantime, a backlash from the continuing wave of defense cuts is beginning to be felt in Washington:

• Senate Democrats—notably Montana's Mike Mansfield, the majority whip—lashed out at the Administration's policy to trim defense spending, charging it undercuts the U.S. bargaining position in disarmament negotiations, and endangers national security.

• The Senate Small Business Committee started to investigate the impact of reduced aircraft production on small subcontractors. At issue, of course, is the fear that big prime contractors will pull back work "disproportionately" from subcontractors.

• Air Force Secretary James H. Douglas and Lt. Gen. C. S. Irvine, the Air Force's Deputy Chief of Staff for Materiel, scheduled talks before the Los Angeles Chamber of Commerce for Aug. 28 to deflate fears that there's an official policy to disperse military production from Southern California. The Douglas-Irvine talks will confirm officially a private Pentagon assurance to a California Congressional delegation that the area would not be "discriminated against."

• **More Economy Measures**—In the Pentagon, officials are laying the groundwork for what should be the effect of a second round of economy measures—to be reflected in new contract awards and expenditures for fiscal 1959 starting next July 1. This will consist of new decisions to cancel overlapping projects, stretch out certain weapons production even more, and postpone volume output of items still in development.

Wilson, for example, has set up a top-level committee to settle once and for all the duplicating Air Force-Army efforts to produce an intermediate range ballistic missile. The committee will decide which missile is to be tapped for future use, or whether sub-systems of each can be integrated into one new IRBM. At stake are numerous contracts, but indications point to this breakdown: Douglas Aircraft, prime contractor for the Air Force's Thor, will build the IRBM hull. North American builds a rocket engine designed for both Thor and the Army's Jupiter, so it's assured of production orders no matter what the decision on the IRBM.

Still to be decided is (1) whether the prime contract for the guidance system will go to Thor's General Motors AC Sparkplug Div. or to Jupiter's Sperry-Rand Corp.'s Ford Instrument Div.; and (2) whether the production order for the nose cone to house the nuclear warhead will go to Thor's General Electric Co. or to the team of unnamed suppliers working secretly under Army Ordnance supervision on Jupiter.

Chinese Junk Joins the Yachting Crowd

A Chinese junk sailed into New York Harbor this week, and with barely a ripple of lateen sails captured the hearts of thousands of boat lovers. The junk, designed by unknown architects about 20 centuries ago, was built in Hongkong and imported by Transorient Boat Co., the husband-wife partnership of Joanne and Charles Schreiber.

Made of teak, the 25-ft. bark measures 7 ft. in the beam, has a 2½-ft. draught, an 8-ft. cabin, and contains more galley and storage space than most New York apartments.

The Schriebers, who spend most of their time on their own junk, were practically forced into the import business by envious friends. Now they take orders for custom-made junks at about $4,500 f.o.b. New York. An American-built craft of the same specifications costs about $8,000.

Opponents Spar at Steel Hearing

● Sen. Kefauver is trying to prove there is a link between physical size of a company and price manipulation.

● U. S. Steel's Blough denies there is price setting in the industry or a tendency toward concentration.

● And Steelworkers' spokesman insists the industry can pay higher wages and cut prices at the same time.

The Senate Antitrust & Monopoly Subcommittee has heard just about all it needs or wants to hear from the U. S. Steel Corp., and from the United Steelworkers of America about the increase in the price of steel and the reasons for it.

It is no surprise that the Corporation, whose chief spokesman is Roger Blough, chairman of the board, asserted that the recent rise in prices was justified by costs (BW–Aug.17'57,p23). And neither is it a surprise that the steel union's chief spokesman, Otis Brubaker, chief of research, said the increase was unnecessary.

But the question the committee is getting at is this: Do steel prices result from market demands, or are they set in board rooms without regard to supply and demand?

• **Pro and Con**—Blough jousted with the committee, headed by Sen. Estes Kefauver (D-Tenn.), for more than a week. He defended the company's prices, including the July increase of $6 a ton, and opined that if other companies followed such a price increase it is because they faced similar increases in costs, primarily due to wage rises and fringe benefits to the workers.

On Tuesday of this week, Brubaker told the committee that the industry, while paying for a wage increase to the workers, could still have reduced steel prices $6 a ton, instead of increasing the price by that amount.

So the controversy goes. U. S. Steel gave its facts to the committee, arguing that price increases had fallen short of paying for increased labor costs, and pleading that increased productivity is the answer to stopping further steel price increases. And Kefauver, seeking to connect bigness in the steel industry with price manipulation, retorted that company after company followed U. S. Steel in its pricing policies, regardless of costs. That, he says, is what is meant by the term "administered prices."

Antitrusters in Washington—and Sen. Kefauver regards himself as a big one—have long made the U. S. Steel Corp. a target for attack for bigness, for causing inflationary price increases, and indeed, for tolerating wage increases that force other companies and customers to follow in line.

I. Labor's Views

And this week, Brubaker, talking for the Steelworkers, contributed to the body of testimony attempting to substantiate the bigness theme. He declared:

- Steel prices since World War II have been "exorbitant" in relation to increased costs.
- Steel price increases have contributed to "administered profits" gained by "administered prices."
- U. S. Steel could have cut prices $6 a ton, instead of increasing by that much, and still have paid for the cost of wage increases, and then returned a bigger profit than ever before.

Brubaker asserted wage increases have not caused a single steel price increase since the union was formed 20 years ago. "There have been 22 price increases," Brubaker said, "and only 10 wage increases."

• **The Aim**—As the hearing proceeds, you can plainly see that Kefauver and his staff are trying to build an argument to tie price manipulation with physical size. Object: to sponsor new laws that would either break up physical size, or regulate prices by public opinion or fiat.

U. S. Steel has been bearing the brunt of the Kefauver inquiry to date. But with Blough off the stand, and the steel union and miscellaneous steel users heard from, the committee wants to hear from other steel company executives, particularly from Bethlehem—to tell about its proposed merger with Youngstown Sheet & Tube (page 110).

II. Kefauver vs. Blough

Kefauver read into the record a compilation of U. S. Steel capacity, based on figures submitted by the American Iron & Steel Institute. The figures show a comparison with U. S. Steel's nearest competitor on a product-by-product basis. Main fact: U. S. Steel has the largest capacity for most of the 46 major steel product lines. Kefauver said the point of this material was to show the "commanding lead" U. S. Steel has over its nearest competitor in many important products.

• **Less Concentration**—Blough rejoined that while U. S. Steel's capacity today for steel ingot is 29.7% of the industry's total capacity, in 1935 it was 39%.

Since 1941, Blough went on, U. S. Steel has reduced its ingot capacity from 35.3% of the industry to 29.7%.

"If that isn't competition, I don't know what it is," remarked Blough, "and if that's concentration, then it is concentration in reverse."

"For us," Blough continued, "the problem is to keep, in this competitive industry, from going further down in relation to the rest of the industry."

Blough lashed out at the assertions implicit in the Kefauver hearing that steel is a concentrated industry.

"I do not want to appear to take issue unnecessarily with this committee's views," he began, "but the four largest companies in the steel industry are not increasing their share of ingot capacity, shipments or any other measures of the industry." Blough read off figures showing that in terms of ingot capacity, concentration is actually going down, not up. In 1947, the four largest companies had 61.1% of total ingot capacity, 59.2% in 1954, and 58.9% in 1956.

Blough also said there was no agreement to share markets in the industry. This followed a remark by Kefauver that regardless of whether industry production is going up or down, the share of production by the four largest companies remains substantially the same.

• **Basing Point System**—Staff counsel Paul Rand Dixon presented the background of several antitrust cases against U. S. Steel, including two by the Federal Trade Commission on charges of price discrimination. The second of these cases, ended by a consent statement in 1951, charged price discrimination through use of a discriminatory basing point system of pricing against the whole steel industry. Though that order was designed to stop identical pricing, Dixon said, Kefauver's evidence of last week on identical bidding shows the practice still exists.

Blough asked—and got—permission to reply to the Dixon statements at a later time, and to answer Kefauver's broad question as to what U. S. Steel's policy now is with regard to freight rates and basing point pricing.

"It would take me three or four hours here for you to fully comprehend it and if I try to brief it for you, you won't understand it," Blough told Kefauver.

The President's Fight for Aid

● His threat to call a special session of Congress shows unusual concern over foreign aid funds.

● State and Defense officials insist cuts would disillusion our allies, add to our own defense load.

● Biggest loser would be our program of modernizing Allied weapons to fight atomic-jet war.

Pres. Eisenhower is locked in his fiercest struggle with Congress since he took office. The issue is the foreign aid appropriations bill. The President originally requested $3.8-billion. Congress passed an authorization bill for $3.3-billion. But the appropriations bill, as passed by the House, allots only $2.5-billion.

The Administration is battling to persuade the Senate to restore the cuts made by the House. Unless most of the cuts are rescinded, Eisenhower threatens to call Congress into special session.

• **Spokesmen**—This week, Secy. of State John Foster Dulles told the Senate Appropriations Committee the cuts, if allowed to stand, would create abroad "a serious crisis of confidence in the U. S. and the dependability of its policies."

Adm. Arthur W. Radford, who recently retired as chairman of the Joint Chiefs of Staff, said the only alternative to restoring the cuts is a "Fortress America" military strategy, increasing our own defense effort.

I. Military Aid

The President had asked for $2.4-billion to buy military hardware for our allies; the authorization act he signed last week provided $2.1-billion, but the House cut the actual appropriation to $1.75-billion.

According to the Administration, most of the cut would have to come out of the plan for modernizing Allied forces—the cornerstone of our Free World defense policy. Officials say other costs of military assistance can't be reduced: $345-million for administration, shipping costs of equipment already ordered U. S. share of international military costs, and commitments for building bases and communication systems overseas; $980-million to maintain existing Allied forces; $175-million to finance arms purchases in the U. S. by friendly nations. These items add up to $1.5-billion.

This would leave only $250-million to provide our allies with modern weapons. The President requested $900-million to refit the nearly 4-million men in Allied armed forces with more than 400 aircraft; 17 destroyers and minesweepers equipped with the latest electronic gear and weapons; over 350 modern tanks, and equipment for 16 guided-missile and rocket battalions.

• **Obsolete Arms**—If most of this modernization program has to be canceled, the Administration says, the balance of military power would tilt against the Free World in critical areas around the Soviet Empire. NATO forces and the troops in Korea, Formosa, and Vietnam would be left primarily with World War II weapons, the Baghdad Pact forces with even older equipment.

The impact of the cuts would be most serious in Europe. The whole NATO strategy has been geared to stress on tactical nuclear weapons and guided missiles to replace sheer manpower. Britain is basing its sweeping reorganization of defenses (BW—Apr.13'57, p48) on assurances of Pres. Eisenhower and the Defense Dept. that the U. S. would provide these modern weapons.

If the modernization program has to be postponed, Defense officials fear that Allied governments may decide it is pointless to maintain even their present forces without up-to-date weapons. This, they say, would increase our own defense burden.

• **Trade-in Value**—The Pentagon is also worried about another dollars-and-cents effect on our military budget.

Under the modernization program, as the U. S. replaced a plane or a gun for our own forces by a newer model, the older one would be bought by the military assistance program to be passed along to our allies. This reduced the cost of modernizing our own forces by an estimated $10-billion over the past five years, Defense officials say.

A cutback in military assistance to our allies would mean that U. S. forces would either have to keep the older types of weapons longer or would have to pay higher net costs for new ones.

II. Defense Support

Pres. Eisenhower had requested another $900-million to help allies bear the cost of defense. The House cut the appropriation to $621-million.

Three-fourths of this defense support money goes to Korea, Formosa, Vietnam, Pakistan, and Turkey. Aid to Korea and Vietnam might be cut $100-million in each case, officials say. Both countries are having a hard time fighting inflation, which has stirred up political unrest. To stave off economic and political upheavals, they—and other major beneficiaries of defense support funds—would almost certainly have to curtail their defense efforts.

• **No Cushion**—The President's special emergency fund was cut by the House from $300-million to $175-million. This fund has two components:

• Special programs for countries that don't qualify for military or economic-development aid: Israel, Afghanistan, Nepal, Bolivia, Haiti, Tunisia, Yugoslavia, African dependencies. The House cut this fund from $100-million to $60-million. Because Israel has other sources of foreign exchange, it might have to lose all of this kind of aid, and the $10-million to complete the Hungarian refugee program would be cut.

• A contingency fund, cut by the House from $200-million to $115-million. Expenditures from this fund have averaged $400-million a year for the last four years.

The $400-million program of economic aid to the Arab countries would also be shaved. This particularly alarms the State Dept. in view of Russia's current moves, backed by massive economic and military aid, to convert Syria into a satellite.

III. Economic Aid

The authorization act earmarked $500-million for long-term development work in foreign countries; $400-million was paid out in grants and loans last year, and officials say they have a $1-billion backlog of worthwhile projects. The House cut the item back to $300-million and refused to grant borrowing power for the next two years. It also insisted that all aid be in loans, rather than partly in grants.

This appears to doom the Administration's hope of putting the programs of underdeveloped countries on a long-term footing, especially since the House also added a requirement that most funds be spent within the fiscal year.

Funds for the Atoms for Peace program were slashed from $7-million to $4.4-million, which will mean canceling contracts for research reactors and running the new International Atomic Energy (BW—Aug.3'57,p28) on a short tether. U.N. technical assistance funds were, in effect, chopped from $15-million to $10-million.

Busy Times Ahead for the World's Shipyards

Scheduled U.S. Construction

	Under Construction		To Start							
TYPE	NUMBER	EST. COST (millions)	1957	EST. COST (millions)	1958	EST. COST (millions)	1959	EST. COST (millions)	1960	EST. COST (millions)
Cargo	9	$46.6	19	$190.0	22	$220.0	15	$150.0		
Passenger-cargo	5	106.7			1	109.0				
Tanker	29	214.2	13	136.8	26	381.8	14	217.3	4	54.0
Total	**43**	**367.5**	**32**	**326.8**	**49**	**710.8**	**29**	**367.3**	**4**	**54.0**

Scheduled Foreign Construction

	Under Construction or on Order	
TYPE	NUMBER	EST. COST
Cargo	1,549	$5.9-billion
Passenger-cargo	39	$280-million
Tanker	946	$6.0-billion
Bulk carriers	129	$473-million

Keeping Up With the Order Book

The shipbuilding industry, deep in the doldrums only two years ago, has a backlog of orders for merchant ships that will keep it jumping until well into the 1960s.

SHIPBUILDING, traditionally a feast or famine industry, is loosening its belt for one of the biggest peacetime banquets in its history.

U. S. yards, currently jammed with tanker building and with order books fat with contracts valued at $1.2-billion, are gearing for an even bigger merchant ship building boom.

Their counterparts around the world are even busier. For the second time this year, world shipbuilding broke previous peacetime peaks. It rose to a record during the first quarter of 1957, then increased nearly 400,000 tons during the second quarter to push into a new record of 8,778,635 gross tons under construction.

• **U. S. Order Book**—In the U. S., a big cargo ship replacement program is slated to pump an estimated $2.2-billion of new contracts into yards over the next 20 years. The government will be footing about 40% of the cost of these new ships through construction subsidies.

The boom is starting to roll now. This week, Congress was asked to build a sister ship to the SS United States at a cost of around $109-million, then sell it to a company for $46-million. American Export Lines has called for bids on four new cargo ships estimated to cost around $40-million. And American President Lines is asking yards to bid on two high-speed Mariner-class cargo ships that will cost about $28-million.

• Recently, too, the government signed a package replacement contract with Lykes Bros. Steamship Co., biggest of the cargo ship operators, calling for it to build 53 modern cargo vessels over the next 14 years at an estimated cost of $500-million.

It has a similar contract with American President Lines to build 16 ships over the next 10 years at a cost of $400-million. Grace Line, Inc., has agreed to build 26 new ships over the next 20 years that will cost an estimated $286-million. Moore-McCormack Lines, too, is signed to build 31 ships over a 20-year period at an estimated cost of $313-million.

In all, the 14 U.S. shipping companies that hold government operating subsidy contracts are obligated to replace 253 ships over the next 20 years.

• **Why the Boom**—While one segment of the American Merchant Marine is preparing to build whole new fleets, another segment—the tramp operators—are floundering in a broken rate market that has them losing money.

Last fall, when the Suez Canal crisis had exporters scrambling for cargo space, tramp ship rates skyrocketed (BW—May11'57,p44). Then, operators were drawing down as much as $16 a ton to haul coal from Hampton Roads to Europe. Now the market has broken, with the trampers settling for as little as $4.06 a ton for the same haul. And they are losing close to $1.30 a ton in the deal.

But, while it is the tramp industry that is currently caught in the squeeze, if rates stay low the liner operators are sure to feel the pinch, too.

• **Subsidy Umbrella**—In the face of this, why the building plans? Plain and simple, it stems from the government props under the industry. As far back as 1936, the government realized that if it was to keep an American merchant fleet on the seas for defense purposes, it had to bolster it with subsidies.

Under the subsidy plan, the government pays the difference in the cost to run an American flag vessel over what it costs a foreign flag ship for similar operations. And, when the time comes

to replace the ships, the government also pays the difference in U.S. vs. foreign building costs—normally about 40%.

To keep the fleet modern, the government requires subsidized operators to replace ships when they become 20 years old. Currently, about a third of the 1,000 ships under the American flag operate under the subsidy plan.

• **First Real Test**—Originally, operating subsidies were made for 10-year periods; now they are being let for 20 years. World War II interrupted the run of the first subsidy contracts, with most companies coming out of the war with newer ships than they started out with. This took care of modernizing the fleet, but it also means that most of the ships in service today were built about the same time, and will hit the over-age bracket together.

As they come up for replacement, it will be the first real test of the government's plan to keep a modern fleet through subsidy props.

• **New Concepts**—The overriding question in the big merchant ship replacement program is where nuclear power fits into the picture. The government is already building an atom-powered merchant vessel to be in service by 1960. Maritime experts say that propulsion plants for ships may well be the first peaceful use of the atom.

But its application in commercial ships is expensive, and still full of unknowns. The general thinking in shipping circles is that nuclear power initially will be most economical for ships such as tankers that operate over long distances.

• **Improvements**—There will be new designs in the new ships, however. With rising labor costs, companies are looking for ways to cut expensive port time and to find new ways to speed up cargo handling. One plan is to outfit cargo holds with big containers that can be loaded and sealed at a shipper's warehouse, then trucked or railed to the pier where they will be stacked in the ship. This seems to be taking the place of the truck-trailer ship idea.

Most of the ships will be bigger and faster. Almost all will jump from present speeds of around 15 knots to 17 or 20 knots.

• **Passenger Ships**—Although tourist traffic is increasing every year, there are no major plans to step up American flag passenger service. Over 500,000 passengers a year shuttle between U.S. and northern European ports by ship, but less than a fifth go American flag. Right now, the only U.S. ships on this run are the SS United States and the SS America, with a total passenger capacity of around 3,000. Reportedly, the United States earns a profit, but the slower 22.5-knot America just about breaks even. Plans are to replace the America with a 32-knot sister ship to the United States.

In contrast, foreign lines operate 34 liners on the route with over 30,000 passenger spaces, and more are building.

• **Shipyards' Bonanza**—The current situation is a far cry from a couple of years ago, when private shipyards were making distress bids just to keep open. Then tanker operators started ordering new tonnage, both before and after the Suez crisis. It resulted in a run on the yards that has them backed up with orders into the 1960s.

On top of this comes the cargo ship replacement program. While shipbuilders know from experience that it isn't safe to count contracts until the ink has dried, it looks as though they are in for several years of clear sailing.

Private shipyards around the country have contracts for 119 new ships or major conversions that will cost an estimated $1.2-billion. Actually building are 43 ships costing $365.7-million. Of this, the government is paying $46-million in construction subsidies and national defense features—extra speed, other things it wants added for defense purposes—on six of the ships; and another $51.2-million for nine merchant-type vessels it is building for its own use.

• **Foreign Operations**—The activity in foreign shipyards is even greater. Setting the pace are Great Britain, with over 2-million gross tons building; Japan with 1.4-million gross tons; and Italy with 918,000 gross tons building. The U.S. ranks eighth, with 392,000 tons under construction.

Although Japan doesn't have as much tonnage under construction as Britain, it is turning them out faster. For the third consecutive quarter, it topped British yards in launching ships and new starts.

• **Tourist Bait**—At least 30 passenger ships are currently building in foreign yards to shuttle passengers around the world. Right now, it is not known exactly what services the ships will be placed in, but it's a safe bet that many will tap the plush North Atlantic trade.

Spectacular among the coming liners is a sleek 31-knot liner, the France, now building in France for the French line. It will accommodate 2,000 passengers and is slated for the North Atlantic trade.

Italy has seven liners under construction, including the Leonardo da Vinci, to replace the Andrea Doria, and the Federico C. Both accommodate 1,200 passengers.

In fact, foreign shipbuilding has mushroomed so rapidly that foreign flag tank operators have turned to U.S. yards in order to get faster deliveries—even though it costs them about 40% more to build here. Right now, U.S. yards have orders for 29 tankers building for foreign flags.

Opening Gun

Reuther's bid for $100 price cut in 1958 cars is first salvo in UAW's bargaining for next year's contract.

The United Auto Workers' bargaining for a 1958 contract with the auto manufacturers opened officially this week—though union and company representatives won't approach a bargaining table until next spring.

That's the meaning behind UAW Pres. Walter Reuther's plea to General Motors, Ford, and Chrysler to cut prices by $100 on their 1958 products. If they did this, said Reuther, the union would take it into consideration in framing demands (but he didn't say it would not seek higher pay).

Since it's almost certain that none of the three companies will make any such pledge, his long letter to them could be dismissed as a meaningless document—except for three things:

- Current government and business worries over inflationary trends.
- Widespread feeling that prospective auto buyers are being scared off by high prices, and intimations that 1958 autos will cost still more.
- The Kefauver investigation (page 31) into "administered" prices—which shortly will put the auto manufacturers on the griddle.

• **Reasoning**—Reuther based his bid on the hypothesis that a $100 price cut would increase industry sales by 1-million cars a year. He backed this up with specific figures for each company, purporting to show the effect on profits—arguing that the rate of return on investment would still exceed the average for manufacturers.

If in 1958 contract talks, the two sides disagreed on whether part of the price cut would have to be restored to meet UAW demands, Reuther proposed "impartial review"—where the companies would presumably have to expose innermost secrets of their costing.

• **Mathematics**—For GM, Reuther's mathematics worked out like this. He said that in the first six months of 1957, GM produced 1,543,323 cars and made profits of $997-million before taxes, $481-million after taxes—an annual rate of 21% on investment, he said.

With the $100 price cut, he contended, GM would have sold 228,000 more cars. On this basis, he figured GM's six-month profits would have been $889-million before taxes. This, he argued, would mean a 39.3% return on investment before taxes, 18.9% after taxes—against a 12.1% average return for all manufacturing corporations.

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by MR. FRIENDLY*

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No Thanks From the Builders

● **Homebuilders and mortgage lenders scorn Federal Housing Administration's eased downpayments, increased interest rates, and mortgage discount limits.**

● **The changes are too late to help them this year, too little for next year, builders say.**

● **So the industry is likely to build less than 1-million new homes this year—and next year as well.**

Through two lean years while their production rate sagged from more than 1.4-million housing starts to only 930,000, homebuilders sought aid from Washington. This month, an Administration anxious to avoid feeding inflationary pressures handed the builders a package. And this week, the nation's builders and mortgage lenders, after a fortnight digesting its contents, are ready to give their opinions:

"It isn't worth a damn," says a St. Louis builder.

"It'll drive away more business than it will bring in," says one in San Francisco.

"The whole thing is unrealistic," says a Chicago mortgage banker.

The package that these builders and lenders scorn (1) reduces downpayment requirements on FHA insured mortgages, (2) raises interest rates on those mortgages from 5% to 5¼%, and (3) limits to a maximum of 2½ points the discounts that can be made on the mortgages.

BUSINESS WEEK, surveying builders and lenders in all regions of the country, this week found them generally unimpressed with the changed regulations.

• **Forecasts**—It seems certain that homebuilding will wind up 1957 at a rate of less than 1-million starts; that for the whole year, between 925,000 and 975,000 homes will be built.

It seems possible, from the estimates of those builders and lenders, that homebuilding in 1958 will run a little closer to 1-million starts a year.

Not many builders believe that the new package of FHA regulations will affect their work at all this year. "Too little—and too late," they chant. "It might have helped six months ago, but not now."

• **Lenders' Laugh**—Primarily, it's the lenders who greet the changed FHA regulations with a hollow laugh.

Downpayment reductions call for 3% of the first $10,000 of a home's value, 15% of the next $6,000, and 30% of the excess up to $20,000.

This change, most lenders say, appears to make the homebuilders' market wider—except for one thing. Lower downpayments require that a buyer's monthly payments be higher, and FHA has not eased its requirement that a buyer should have a monthly income five times as large as his monthly payments. On a $16,000 house, a buyer would need only $1,200 as downpayment, but on the remainder, monthly payments on a 20-year mortgage would run to at least $125. Thus, to qualify for an FHA loan, the buyer would need a $625-a-month income.

And how easy is it to find such buyers? Says a Midwestern mortgage broker: "Last week, a real estate salesman asked me to qualify 15 of his prospects for loans. Not one of the 15 could meet the FHA income requirements."

• **Small Gain**—The ¼% rise in the interest rate, say most lenders, simply adds to the buyers' monthly payments without attracting any more money to the mortgage market.

A St. Louis insurance company reports that the ratio of FHA to conventional mortgages in its portfolio, which ran about 50-50 two years ago, now stands at 20-80. "We anticipate no change in this ratio," says the company.

To make FHA paper an attractive investment most lenders say the interest rate should be increased to at least 5½% and probably 5¾%. Those most vehement about this are generally the ones most affected by the FHA's imposition of a new sliding scale of mortgage discount limitations.

• **Discount Pinch**—This latter change in FHA rules brings the greatest scorn from lenders. The scale is fixed geographically, according to Washington's estimates of each region's economic stability, its supply of lendable money, and the discounting habits of its local lenders. The limits range from 2½ points in the Rocky Mountain states and in Michigan, to 2 points in Western, Southern, and Midwestern states, to 1½ points in the Middle Atlantic region, and to 1 point in New York and New England.

Michigan's lenders, naturally, are piqued by the 2½-point limit imposed in their state. Formerly, discounts ran regularly to 4 and 5 points there. The revision, says a Detroit banker, will discourage out-of-state investors who frequently bought mortgages in Michigan.

In the eastern half of the country, where discounting has been less frequent and the discounts themselves smaller, there's less anguish about the newly imposed FHA limits. But along the West Coast, there seems a chance that there will be less mortgage money available, at least temporarily.

Bankers in Los Angeles, San Francisco, and Portland say, "The increased interest rate may make FHA loans seem more attractive in relation to 6% conventional mortgages. But we shall put no more money into FHA mortgages than we have." In almost every case they cite the discount limit as the reason for their lack of fresh interest.

• **Builders' Hopes**—BUSINESS WEEK's survey found only a handful of builders in the nation's major metropolitan centers who expected the FHA rule changes to help their business this year.

A few, troubled by lenders' reactions to the discount limits, guess their business may even sag a little more this year. But most expect their operations for the rest of the year will run along about as they have since January.

In several cities, builders have noted a slight pickup in sales in the last few weeks. Most of these represent deals that were made before—but not signed until after—announcement of the new FHA rules.

For next year, few will estimate the number of homes they'll build. But most of those who are planning for 1958 guess their own sales will range from "about the same" to 5% better than this year.

• **Factors for '58**—The improvement, they say, should come from three sectors of the market. The new FHA rules, even combined with the FHA's strict buyer-qualifications standards, will tap a slightly larger market. One builder who looks for a slice of this plans to buck the national trend: "We'll downgrade our homes to get the prices right," he says. In some cities there's a little gain in sales of existing houses, putting more in the market for new homes. And many local lenders, the hopeful builders add, will need to put out some FHA money if they want to maintain good relations in their communities.

None of these three factors is likely to bring the homebuilders a much better market in 1958, and most of those who are looking ahead seem to accept this.

In Business

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Major Toll Roads Move a Step Into the Federal Highway System

The Bureau of Public Roads announced Wednesday that 2,100 mi. of toll roads, worth $2-billion at today's costs, have been brought into the 40,000-mi. interstate highway system, thus avoiding duplication. It will be up to Congress whether to pay off the turnpike authorities and make the roads toll-free or to let them continue to pay their way.

Additions include many well-known turnpikes that fit into the national system, but not others such as the West Virginia pike and most of the New Jersey Turnpike.

Some were excluded because they don't match the national plan; others because the states still want parallel free roads built.

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New Gadget Controls Car Speed While Driver Takes It Easy

A new kind of auto speed control that's more than a governor will be marketed this fall by Perfect Circle Corp. **If it works as it's claimed to, it could be a boon to motorists on long drives over superhighways.** On a dial on the dashboard or steering column (picture), the driver could select his cruising speed and take his foot off the accelerator pedal. Uphill, downhill, or on the level, the Speedostat would maintain constant speed. And the driver would escape the ankle cramps that often go with hours of driving at a fixed speed.

The device, designed by blind, retired Pres. Ralph R. Teetor of Perfect Circle, may be offered as optional equipment on some 1958 models.

When the Speedostat takes over in long runs, its automatic operation can instantly be cut off by touching the brake pedal. In ordinary driving, too, the driver can select his cruising speed but continue using the gas pedal. When the car reaches pre-selected speed, a back-pressure of 24 lb. builds up on the gas pedal to warn the driver; in emergency, he can overcome this pressure but afterward the car returns to pre-set speed.

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Flu Vaccine Starts to Trickle Out As U. S. Cases Continue to Rise

Output of Asiatic flu vaccine (BW–Aug.17'57,p95) was stepped up this week in a race to build stocks before cool weather brings an expected outbreak. The number of confirmed cases in the U. S. rose a few thousand from last weekend's total of 25,000.

Meanwhile, the U. S. Public Health Service and the American Medical Assn. gave reassurance that **one injection of a cubic centimeter is enough to immunize.** This means available stock will go further than if repeated shots were needed, as some doctors had suggested.

First shipments of vaccine were made last week by Lederle Laboratories of American Cyanamid Co. (85,000 cc.) and National Drug Co., a Vick Chemical Co. subsidiary (250,000 cc.).

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74-Year-Old Baseball Giants Join the Gold Rush to the West

After playing baseball in New York for 74 years, the New York Giants will move to San Francisco next season. Pres. Horace Stoneham told stockholders he could assure a profit of $200,000 to $300,000 if the team went west. The club has been losing money.

The deal includes a promise by San Francisco to build a 40,000- to 45,000-seat heated stadium south of the city, for occupancy next summer. Cost of $10-million to $12-million will be financed partly by tax-exempt bonds. The Giants will pay a rent of 5% of receipts after taxes and the visiting clubs' share. They must guarantee the city $125,000 a year.

Before big profits roll in, the Giants will have to pay damages to the Pacific Coast League for moving in on its territory, they'll have to buy the franchise of the San Francisco Seals, and they'll have to continue paying rent in the Polo Grounds, their New York home, for the four years their lease still runs.

Next to be heard from: the Brooklyn Dodgers.

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Business Briefs

First commercial oil production in the Northwest began Tuesday near Aberdeen, Wash. Sunshine Mining Co. expects in about a month to determine how much oil there is in its field.

The Texas oil allowable for September was boosted by 68,287 bbl. a day, even though some major buyers said they have so much crude that they don't know where to store it. . . . **New Mexico** cut its production quota for September to an all-time low. . . . The Interior Dept. predicts **an increase of 100,000 bbl. a day in demand** next month.

General Motors Corp. earned any extra profit it made on a $344-million jet fighter contract, Air Force officers told a House Armed Services subcommittee investigating alleged excess profits (BW–Jul.27'57,p46). Witnesses spoke of GM's "phenomenal performance" and "unheard-of ingenuity" in cutting costs.

Webb & Knapp Inc. has the Chrysler Building back on its hands. A deal to sell the 77-story New York skyscraper and two smaller buildings for $66-million (BW–Aug.3'57,p36) fell through in disagreement over terms of leaseback.

WASHINGTON OUTLOOK

WASHINGTON
BUREAU
AUG. 24, 1957

A BUSINESS WEEK
SERVICE

This Congress gives some clues to next year's political campaign.

On the GOP side, Pres. Eisenhower's influence is slipping. The reluctance of the Democrats to go after him personally, in the past four years, has just about disappeared. Feeling among the opposition is that since Eisenhower can't run for reelection, he can't be a determining factor in elections next year and in 1960.

You see the results in legislation. Budget cuts are larger than had been expected. And they apply to foreign aid projects as well as to domestic spending programs. The House killed school aid, a major Eisenhower project. Many Presidential proposals have been shunted aside—the natural gas bill, for example. And the President has been sent legislation he did not want—such as public power projects from the atom.

Civil rights is the major Republican political gain of the session. The White House can't dictate the final terms of this legislation, if Congress does come to action on a bill. Still, it has made a record. The hope, of course, is that this issue will swing enough votes to the GOP to score gains in House and Senate races next year, and help set things up for the Presidential race in 1960. The bill actually is aimed more at the North than the South. Negro voters, whom Roosevelt put in the Democratic column and Eisenhower has been weaning away, can tip the outcome in such states as New York, New Jersey, Pennsylvania, Ohio, Michigan, and Illinois—all big in terms of Presidential electoral votes.

Democrats show some significant shifts.

There's the swing to economy, after years of backing open-handed spending by government. The party plans to couple its new economy stand with tax cuts in a bid for votes next year.

There's less of the internationalist sentiment. This showed up most in the determination to cut Eisenhower's foreign aid program.

There's more support for tariffs. You see Southerners, the old traditional backers of free trade, taking a kinder attitude toward protectionist proposals. This can make trouble for Eisenhower next year, when Congress will again pass on the reciprocal trade law.

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Businessmen will want to watch Capitol Hill after adjournment.

There will be a breather as members take vacations and junkets. But the prospect is that in the fall there will be a rash of hearings on issues of business importance.

The Democratic attack on rising prices will be resumed.

Kefauver's hearings (page 31) will start up again. So far, they have centered on this summer's steel price rise. Later they will get into autos—an examination of the higher price tags that are scheduled to be attached to the new 1958 models.

The issue of so-called administered prices will be up again. Kefauver will go into this again. A more detailed study is planned by a sub-group of the Joint Economic Committee. It will start with a new survey showing price fluctuations for nearly 2,000 commodities.

WASHINGTON OUTLOOK (Continued)

WASHINGTON BUREAU
AUG. 24, 1957

The credit policy hearings will pick up again, before the Senate Finance Committee, headed by Sen. Harry Byrd (D-Va.).

Here's a point to remember: When the hearings started some weeks ago, there was a pretty full committee attendance. Byrd sat in, and so did most of his fellow Democrats. By the time the hearings recessed this week, it was unusual to find more than one Democrat present (page 25). And the Democrat who turned up was the one who had the time to question witnesses.

This will show later in politics. If business does turn down, soften up a bit, the Democrats will try to picture the trend as an "induced recession." The whole attack on Eisenhower's anti-inflation policies has been on the grounds that they eventually will lead the nation into a recession.

Hearings on tax cut possibilities will be delayed until January. The plan of the House Ways & Means Committee is to start this ball rolling early—before Eisenhower sends up his budget message, which will detail the Administration's tax stand. If there's to be a tax cut, and one seems likely, both parties will be fighting for the credit.

The impact of government spending on business will be weighed in the fall by a Joint Economic subcommittee headed by Rep. Mills (D-Ark.). The tentative starting date is Nov. 18.

The object will be to determine what the government should or should not be doing in such federal aid fields as housing, public works, and roads to maintain a high but stable economy. The subcommittee will seek the views of top economists, from outside as well as inside the government.

The tariff issue will pop up in late fall, when the House Ways & Means Committee opens a policy study of foreign trade. Idea is to lay the groundwork for an extension of the reciprocal trade agreements law, which expires next year. Current prospects favor extension, but new strings probably will be tied to the authority of the White House to cut tariffs.

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What to do about the farm vote will be a red-hot question in 1958.

Agriculture Secy. Benson doesn't like his own program—the plan of flexible price supports with soil bank payments to farmers who take acreage out of the major crops that are in surplus supply. Fact is that the price he has paid, at taxpayer expense, for production cutbacks has been tremendously high. Farmers simply retire some acreage, fertilize highly what is left in production, and turn up with crops about as big as ever.

Congress will take a fresh look at this problem in December. Plan is for Sen. Sparkman (D-Ala.) to make a study with a subcommittee of the Joint Economic Committee. Sparkman's interest is primarily in the family farmer—the small operator. This will throw the whole problem into politics. Family farmers vote big, but produce small. Anything that gives them a sizable jump in income will be costly to consumers.

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A special session of Congress is unlikely. Eisenhower and his spokesmen in Congress have used it as a threat to try to line up votes on such things as civil rights and foreign aid. But it probably would take a crisis abroad—not now anticipated—to persuade Eisenhower to call Congress back.

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The paths to the top are various. Once there, presidents fall into a pattern.

At Top, It's All Work, No Play

A company president has little time for anything except his job. And far from deploring such a situation, he thrives on it, probably couldn't live any other way. This is the picture of the corporate leader that emerges from an extensive AMA survey of the lives of 335 No. 1 executives.

COMPANY PRESIDENTS come in all types and sizes. And they get to their exalted positions by a variety of means—marriage, proper choice of parents, hard work, and a certain amount of luck. Once at the top, however, they become a group apart, men wholly dedicated to their businesses, almost to the exclusion of everything else.

This is evident from a survey of company presidents conducted by the American Management Assn. The survey confirms many things already known about leading executives—their educational backgrounds, how they climbed to the top, their on-the-job routines. But because of its broad scope —335 company presidents were questioned by mail about their business and outside-of-business life—the survey gives a deeper insight into the complete corporate executive. In effect, the survey sketches 335 symbols of success.

• **The Sample**—The company presidents surveyed run organizations varying in size from several hundred thousand dollars to several billion dollars in yearly sales (the average is $67-million). Their ages range from 30 to 77 (the average is 51), and they make an average salary of $68,000 a year.

As you might expect, these men have energy, vitality, drive, and self-confidence—whatever it takes to get to the top of a fast-paced organization.

• **Major Preoccupation**—More important is that all the energy and drive are concentrated on one thing—the business. Very little of it is dissipated on outside interests. The survey finds that almost every one of a president's waking moments are devoted to his job. What leisure the man permits himself (even his vacations) is work-oriented. Almost by definition, family life is something brushed aside in favor of the job. Presidents often talk and dream of "that leisurely trip," and of "getting away," but they don't do it. Nor are they likely to until they retire.

The fact is they like being fully committed to a job—even at the expense of other pleasures. Given the chance to do it at all over again, they would make the same choice.

• **The Pattern**—A company president can put in 80 to 90 hours a week (three-quarters of his waking time) directly on his job or some related aspect of it. He can do this not because he's a superman, but because he puts aside for business use time another man spends on his family, sports, reading, chatting, or dreaming.

A president appears to have a different pattern of living from most businessmen, but actually the same pattern is discernible to a lesser degree down through the ranks of every business. Every executive "on the way up" has to cope with it. He can adopt the pattern as his own and hope to climb or he can use his time for another facet of life—and settle for a lower rung on the ladder. It is almost impossible to do both. To get to the top, the survey suggests a man has to put on a pair of blinders to shut out everything except business. He turns himself into a specialist running a company.

All of this contradicts the popular notion of presidents as well-rounded corporate "statesmen." Many company heads just haven't the time—or often the interest—to be rounded in anything except business life.

• **Not Enough Time**—Asked what their

They may daydream about getting away from it all—but they won't.

biggest single problem is, most presidents answered "time," "finding enough time," or "the proper use of the time available." And they want more time not for reading or for family life, but for running the business, which is something they already almost literally sleep, eat, and play.

Company presidents step into the world of business right at breakfast with the morning paper, shift themselves in higher business-gear as they drive to work (most live close enough to get there in 15 to 20 minutes) and hardly disengage at all. The lunches they eat are "business lunches," talking shop with subordinates or customers.

The reading they do at work is business reading. The same is true of most of the reading they do at home. They look over periodicals and reports during daytime office hours and during the 10 to 15 hours a week of overtime they put in. Most of them take home another five to 20 hours of paper work. "It's the only way I can get anything done without being interrupted," reports the 54-year-old head of a Michigan concern.

• **Business Trips**—The trips company presidents take are mostly business trips. One 55-year-old chief of a $45-million-a-year company says he takes a few extra days off for golf during a trip. But for most presidents, trips entail an extra load of work and, in addition, a certain amount of "business" entertaining. Roughly one-fifth of the executives surveyed travel from two to four weeks a year. Another third are away from the office two to three months a year; 15% say they are away three to four months.

Their vacations, which average four weeks, as often as not are mixed with business. Almost half the presidents keep in touch with the office by phone and mail. A number plan their itinerary so they can make a few "social" calls on major customers and dealers.

One 60-year-old Iowa president takes key files and a dictating machine with him when he goes on vacation so he can crank out 10 hours of work each week. The head of a $20-million-a-year Chicago company says he spends 50% of his vacation time on business. "I've never been able to get away completely," he says. Chances are he really doesn't want to.

• **No Impenetrable Retreat**—Even their private retreats often are overrun with business. Half the presidents have a summer place of some sort. One-third of them have boats. Both often are used for business entertaining.

The same business bias shows up in the other activities of company presidents. Their favorite game is golf, the business game. The chances are they play it with "business" friends, but not as often as they'd like. For many of them, four or more games during the summer is about par; they "just don't have the time" for more. In cards, they prefer bridge to poker.

While they aren't clothes horses they do dress for the job. Most have an extensive enough wardrobe so they can show up for work in a different suit for two weeks running.

Predictably, their tastes in liquor run to scotch and dry martinis over bourbon and rye. Beyond this though, company presidents seem much like any other group. Their favorite food is steak, and their favorite TV viewing is football. What non-business reading they do tends toward popular magazines and escape fiction.

The survey shows that most presidents tip "conservatively." Some are downright niggardly, and a few don't tip at all (see chart, page 45).

Presidents are not much in the way of hobbyists. Their main interests, outside of work and families, are usually such non-active pastimes as listening to music or reading.

• **Community Work**—For those who do engage in outside activities, this generally means community or church affairs. As leaders in the community, company presidents often are tapped for fund drives, college boards, and hospital directorships. Those who are active

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66	19	7	8	
Bartender				
0	up to 25¢	up to 50¢	up to $1	
22	9	1	11	
Restaurant Waiter				
0	up to 15%	up to 20%	other	
2	84	13	1	

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generally devote 15 to 20 hours a month for such work.

• **Family Life**—All in all, the company president doesn't have much time left over for his family. One-fifth of the presidents surveyed spend only 20 hours a week with their families, including the time they sit down with them at the table for meals. Half reported they spend between 20 to 40 hours a week with their families. But meals alone take up 10 to 12 hours of the week. When you figure a weekend contains 32 waking hours, it's obvious an executive's family often gets short shrift.

Many of the presidents fret over this. Some try to set up formal rules to guarantee them uninterrupted family time. They try joint trips, family sports, games in the evening, or picnics. One president takes his young son to the


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The office goes everywhere—even on vacation.

office with him on weekends. This way, he says, at least they get to see something of each other. The most popular family recreation, however, is weekend sailing. This is one way a man and his family can get away for a while. But this too is seasonal and occasional.

Many presidents sincerely plan to make up for a lack of attention they've given their homes—as soon as they have time. They speak wistfully of pulling away from the treadmill for a while—but seem to know they aren't going to.

Over half of the presidents don't even have plans for their retirement—they just don't like to think about it. Roughly 10% say they won't ever retire. Of those who have made retirement plans, some speak of doing consulting work or serving as directors, and others plan to keep busy on community affairs. Most of the rest have a yen to travel—mostly to Europe—usually by boat, and almost always in a leisurely manner.

• **Private Dreams**—Boats loom large in the private dreams of corporate heads. When asked what was the one thing they would like to do that they had never done before, traveling by boat was a recurrent theme. "Cruise the Caribbean in my own boat," responded the 44-year-old head of a $50-million-a-year Boston concern. About one hundred others, a third of the group, spoke in the same vein.

Six or seven corporate chiefs yearn to fly a high-speed jet. One wants to ride a submarine. Only a handful expressed business ambitions. Some 20% of the presidents say they are content and have no special wants or cravings.

Being energetic, aggressive, and fairly well-to-do, it's within the power of most of these men to fulfill their wishes. But they can't tear themselves away from their jobs long enough to try. They like their jobs too much.

• **Few Regrets**—With few exceptions, the vast majority of the company presidents surveyed wouldn't want to be

anything except what they are now. One or two of them admit they would now choose the diplomatic service. And a few more say they would like to have gone into medicine. But, by and large, virtually all of them like being at the top of a corporate organization and want to stay there.

• **Route to Top**—The route to the top varies, but a college education evidently helps. Some 90% of the presidents attended college; some 72% have degrees. At least 17% received diplomas for graduate work.

Looking back, 36% of the presidents point to a history of general management experience covering production, marketing, and finance. Either marketing or production proved the touchstone to success for another two-fifths of them. About 12% worked their way to the top through finance. The rest did it by a combination of staff and line jobs.

Somewhat surprising in view of all the talk about the mobility of management, is the fact that more than half of the presidents never left their native states and more than one-third are at work in their home towns. This is partly because many went to work in companies their families owned or had some voice in. It also indicates that, except in the giant corporation, the home town boys who know the local people may stand a better chance of getting ahead in a company than an outsider.

• **How They Got There**—Almost 20% of the presidents frankly stated that they got where they are by inheriting their jobs. Some not fortunate enough to be born with companies in their mouths, overcame the handicap by marrying the boss' daughter.

The president of a $100-million corporation cites a successful proxy fight as the single event that propelled him to the top. But the majority mentioned luck, "being in the right place at the right time," as an important, if not key factor, in their good fortune.

• **Problems**—Once in the top job, however, all of them face a set of sometimes vexing problems.

A number mention the pressure they are subjected to from old hands. A 38-year-old head of a small New York City manufacturing company says his relationship with the board chairman is a worry to him.

Older presidents have a few special problems that they lay at the door of their younger subordinates. They complain about the difficulty of getting people to do their own thinking or the slowness with which junior executives make decisions, but don't say whether their own attitudes shape this behavior.

But problems are part of the reason that the job of being the president of a company is challenging. Without them many No. 1 executives would be bored. **END**

After hours reading for

an international banker

The business day is ended; and Leslie H. Dreyer, head of the Foreign Banking Department at The First National Bank of Chicago, settles down for some required reading.

From his brief case he takes the latest reports of two department officers recently returned from Central and South America. These are records of meetings with key financial leaders; observations on current political situations and national economies. There's a keen evaluation of industries and markets; an anecdote about a Latin American revolution.

Mr. Dreyer begins matching information with customers' problems. A fact about the coffee market may be a clue to solving a Gary manufacturer's machinery problems. Exchange regulations in Chile may affect operations of a firm in Memphis. The situation in Venezuela . . . and so it goes.

All this is in the 90-year-old tradition of the Foreign Banking Department at The First National Bank of Chicago. Leslie Dreyer and his associates continue to maintain close personal connections with a global network of correspondent banks. And the result has been a significant service for businessmen with an eye on foreign transactions.

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In Management

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Loew's Management Claims Rift Among Leaders of Dissidents

Embattled management at Loew's Inc. let fly another barrage of news releases last week as the battle for control of the movie giant nears a climax (BW–Aug.17'57, p43).

Firing for effect, mainly on Loew's 25,500 stockholders, management announced (1) that it had won an injunction against opposition directors' interference with the crucial Sept. 12 shareholders' meeting, and (2) that there was not always harmony within the rebels' ranks.

Four months ago, Pres. Joseph Vogel says, Stanley Meyer made overtures to the management side. **With Joseph Tomlinson and Louis B. Mayer, Meyer heads the opposition slate, but Vogel says he expressed dissatisfaction with his partners and their methods.**

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Burroughs Corp. Announces Plan To Broaden Its Line of Computers

Ambitious Burroughs Corp. plans to become a complete computer producer sometime this fall. In addition to its present medium-sized "Dataron" system and its highly successful desk-size computer that sells in the $40,000 range, it plans to turn out a giant computer in competition with Remington Rand and IBM systems.

However, Burroughs is going to have to watch its flanks. Giant IBM, which up till now has stayed out of the booming small computer market, plans to shoulder its way into the field in a few months. Meanwhile, Bendix Aviation Corp. has announced it is undertaking a program to double the size of its general computer manufacturing facilities.

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Schering Merger Promises Expansion and Freedom From a Control Fight

Management at Schering Corp. is going after two benefits for the price of one merger. On Sept. 19, if stockholders agree, Schering will acquire White Laboratories, Inc. Not only will this deal help Schering expand further into the ethical and proprietary drug field, but it will also help management to fend off a threatened take-over by Revlon, Inc., the fast-paced cosmetics company.

Last June, Revlon announced it held some 8.5% of Schering's stock and intended to get into the drug business. This was probably the biggest single bloc of Schering stock. Company management, which holds less than 1% of the stock, didn't welcome the idea of control by the promotion-minded Charles Revson of Revlon.

The merger move calls for a 2-to-1 split of Schering stock, plus the authorization of new shares of both common and preferred. **Thus, management can dilute the Revlon holdings and also get an important chunk of voting stock into presumably friendly hands.** When the whole thing is over, Schering will have 4.2-million voting shares outstanding, of which 16% will be held by some 238 White stockholders while the Revlon holdings will drop from 8.5% to 7%.

Schering, which earned $10.6-million on $54-million sales last year, will also boost sales nearly to $70-million by acquisition of White, which last year netted a healthy 13% of sales, after taxes.

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Continental Oil Invites Professors To Study and Criticize Operations

Continental Oil Co. is laying itself, its operations, and its policies open for inspection, criticism, and suggestions by 10 university professors. The educators, all business consultants in their own right, are spending two weeks reviewing the business and quizzing both line and staff personnel. At the end of this time, they will present their analyses and suggestions to management.

"An outside examination and evaluation of our operations and our management can aid us in identifying possible problems and weaknesses," says company president L. F. McCollum. Some sharp questioning by sharp outsiders is bound to stimulate company thinking and help improve over-all performance, he feels.

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Management Briefs

Now it's official: Last week, George M. Humphrey was formally elected chairman of the board of National Steel Corp., the nation's fifth largest steel producer.

U. S. interest in overseas operations is still climbing. The latest recruit: A. O. Smith Corp., fabricator of steel products (BW–Aug.10'57,p58), announced a long-range program to set up manufacturing plants abroad. A new subsidiary, A. O. Smith International, S.A., with headquarters in Caracas, Venezuela, will serve as the framework for the operation.

Johns-Manville Corp. the building materials, insulation, and industrial products manufacturer, is planning merger with Bestwall Gypsum Co., a one-time property of Certain-Teed Products Corp. that was spun off to stockholders last year.

Ruffled feelings at Superior Tool & Die Co. of Detroit (BW–Aug.17'57,p52) were smoothed over last week. When insurgent leader Mendel Lurie, a New York attorney, was granted a seat on the company's five-man board, he and other insurgents agreed to indefinite postponement of court action.

St. Louis Gets Experts' Blueprint

This team of political scientists, an economist, sociologist, and researchers offers a middle-of-the-road solution for St. Louis area's government problem.

for Areawide City-County Rule

TOO MANY GOVERNMENTS—The city of St. Louis has been separated from the county for 80 years. In all, the area has 149 government units—school, fire, sewer districts, and 96 municipalities in the county (only the largest are shown above).

THE DOZEN men and women posed against the St. Louis skyline at the left are authors of the most expensive study of a metropolitan area yet completed in the U.S. Their $300,000 survey of St. Louis and St. Louis County (map), published this week, offers one pattern for solving the problem of city-suburban relations that is tormenting scores of similar U.S. areas.

Though specific findings may be limited to St. Louis' special background, many of the broader conclusions that spring out of the study have nationwide significance—and cast doubt on some widely held assumptions about the relations between a city and its suburbs in this era of tremendous suburban growth.

One picture commonly painted, for example, is of fast-growing, well-to-do suburban communities called on to rescue the shrinking, down-at-the-heels city that gave them birth—a sort of "problem parent." The St. Louis group found the main problem there to be the other way around—helping hard-pressed suburbs to meet the stresses of soaring government costs and a tax burden resting almost wholly on homeowners.

• **Joint Rule**—The St. Louis study also throws fresh light on the coming development of metropolitan area governments. With city and suburbs often forming virtually one continuous community, more and more areas are looking into the possibility of areawide governmental units to handle jointly the highway, transit, and other problems affecting all alike, or to furnish common governmental services.

The St. Louis survey—financed with $250,000 from the Ford Foundation and $50,000 from the McDonnell Aircraft Corp. Charitable Trust—provides a few pointers on the direction these metropolitan governments are likely to take:

• They are likely to be set up, wherever possible, within existing governmental or constitutional frameworks—and they are more likely to have

limited, specific powers than to be broad, new super-governments.

• Each must be tailored to fit an area. St. Louis' case is unique, because the city was separated completely from the county way back in 1876.

• Planners of metropolitan governments must contend not only with the strong attachment of suburban officeholders to their jobs, but with powerful community loyalties of residents—stronger than the metropolitan pull.

• Providing a municipal function, such as police, on a metropolitan scale doesn't necessarily save money. But effective operation may require at least some coordination.

• **St. Louis Version**—Many other cities are likely to look into these broader findings for clues to their own puzzles. Yet the burden of the study applies to the local St. Louis situation.

The team of researchers, headed by John C. Bollens of the University of California at Los Angeles, tackled specifically the government problem at St. Louis arising from city-county separation, multiplicity of local governments, and lack of an authority covering the whole area.

What it has come up with is a middle-of-the-road solution—a proposal for a metropolitan district government with seven functions: arterial roads, transit, planning, economic development, sewers, civil defense, assessment.

Some of the warmest backers of the survey were disappointed—they wanted something more sweeping, thought public sentiment would support it.

The authors, however, felt a slower approach would be more practical, and stand a better chance of adoption.

I. How It Started

Actually, the metropolitan area of St. Louis is usually considered as including not only St. Louis County but one other Missouri county and two in Illinois. But for practical purposes, the survey group restricted itself to the city and county of St. Louis—where 75% of the people in the area live.

Of the 1.4-million people in this more limited area, 841,000 live in the city, 571,000 in the county.

Since the 1876 separation, the two have lived side by side, with no governmental tie at the local level. The first successful move toward unity came in a small way in 1954—creation of the Metropolitan St. Louis Sewer District.

• **Beginnings**—At about the same time, two independent efforts for a more basic realignment got started:

• Henry J. Schmandt, a St. Louis University political scientist, proposed a study of the subject to his department head, Paul G. Steinbicker. Steinbicker, seeing the need of financial backing from a foundation, found his opposite

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number at Washington University, Thomas H. Eliot, ready to join in applying to Ford.

• A. J. Cervantes, a city alderman credited with political ambitions, came out for city-county amalgamation. He and leaders of the Teamsters Union circulated petitions asking for election of a board of freeholders to go into the question. Under Missouri law, any charter changes must be initiated by such a board of voters.

When the Ford Foundation welcomed this chance to delve into the urban problem, politics gave way, at least temporarily, to scientific inquiry. Cervantes agreed to hold up his petitions, so that the board—required by law to report within a year—could have the benefit of the foundation study.

• **Under Way**—UCLA's Bollens, who had just completed a work on metropolitan government for the Council of State Governments, was put in the driver's seat for the survey, and a staff of social scientists built around him.

First the team took a thorough look at existing governments. It found in the city and county 149 separate local government units—including, in the county, 96 municipalities ranging from 60 to 53,000 people.

Digging into population trends, the group found the city had lost 2% since 1950, while the county had gained some 42%. Using a scientifically selected sample of 2,000 residents, the group discovered that 25% of the area's adult population had lived there less than 20 years, and that 40% of the county's residents had moved from the city. Of the Negroes—now 24% of the total—40% had come within 20 years.

II. Metropolitan Blueprint

But the main problem was too many local governments, varying in quality of services from excellent to none at all—and grown together so haphazardly that roads shared by two towns have different traffic regulations in opposite lanes.

In tackling this problem, the study team had few precedents to go by. Toronto, which pioneered with a metropolitan government in 1954 (BW—Jan. 22'55,p64), operates under Canadian laws. In the U. S., Miami is just setting up a version, using the existing county framework (BW—May25'57,p52).

• **Choosing the Pattern**—The Missouri constitution offered four alternatives—complete merger of all units, restoration of St. Louis to the county, annexation of other areas by St. Louis, or a metropolitan district government that would divide functions with the local units.

The study team picked the fourth way as most workable and most likely to win support. It would provide area services, but preserve local autonomy.

• **Powers**—Under the plan finally proposed, the metropolitan government would have power to enforce its ordinances, and to finance itself by levying and collecting taxes and issuing bonds.

It would provide these services:

Assessment. City property is now assessed at a higher percentage of value than county property. To avoid discriminating against the city, all property would be uniformly assessed.

Roads. Residents interviewed in the survey complained most bitterly about traffic delays and varying quality of roads. Expressways have lagged, and have been subject to "aldermanic courtesy" in picking routes. The new government, therefore, would assume control of arterial roads, build new ones, develop a traffic plan.

Transit. The area government would acquire transit systems, operate or lease them, regulate routes.

Planning. At present, it's a hodgepodge. St. Louis has a master plan, but little unused land. Ten other municipalities have plans; others zone without plan. The county, responsible for unincorporated areas with a total of 150,000 residents, has none. The 29 school districts and the sewer district plan on their own. The study calls for an areawide plan to designate sections for industry, homes, parks, schools, roads. Within this master plan's provisions, a locality could set its own zoning standards. Municipalities that don't conform would be enjoined from issuing building permits.

Economic development. Economically, the St. Louis area hasn't kept up with other big cities; it lags behind competing cites in industrial development (page 65). For this reason, the metropolitan government would have power not only to designate land for industrial use, but also to cooperate with private groups in assembling and developing tracts for manufacturing and business.

Sewers. The present sewer district covers part of the county; beyond its limits private interests are building sewers. The new government would absorb the old district, regulate all sewers.

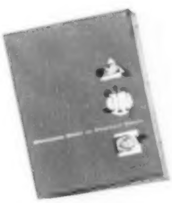
Civil defense. The new government would bring some coordination to efforts now ineffective because too many governmental units are involved.

• **Setup**—At the top of the metropolitan pyramid, the plan would set up a legislative council of 14 men, and a president elected at large. City and county would each elect six councilmen, and the chief executives of city and county would each appoint one. The president would name a director of administration responsible to him, and would make recommendations to the council and carry out its directives.

Though giving the metropolitan government taxing power, the survey makes no specific recommendations on the kind of taxes to be levied. It does urge

Rolling up the Miles

Rolling Down the Costs



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that the county should collect property taxes for individual cities, and that the county's own power to raise property taxes should be enlarged.

III. What It Isn't

That's what St. Louis' metropolitan government will be like if the survey group's proposals win public support. But just as important are the things the proposed metropolitan government will not do, at least for the present (there would be a provision for adding to its functions).

In many similar areas, for example, water supply, police, fire, and health might be among the first functions thought of for an area government.

St. Louis, however, is in a fortunate position of having no water worries.

• **No Saving**—The survey staff did find unquestionable need for improvement of police, fire, and health services—only 33 municipalities in the county have more than one full-time policeman, only 17 have full-time firemen, 24 have no health service.

At first, the group inclined to the view that these services could be provided more economically and effectively through large-scale consolidation of municipalities. But when they looked deeper, the expected savings proved to be small. So they merely recommended a change in state law to make it easier for municipalities to disincorporate, to consolidate with others, or to annex unincorporated areas.

They also proposed some coordination of police, fire, and health services through the county government.

• **School Crisis**—In the 29 school districts, the surveyors found a definite crisis—with great inequalities in the education provided, and rapid increases in the number of children of school age.

The root of the inequalities, the group discovered, lay not in unwillingness to support adequate schools, but in unequal financial resources. The county's tax base is 83% residential. But Clayton, for example, has an assessed valuation 18 times that of Kinloch's $2,200 per pupil, and can spend almost six times Kinloch's $112 per pupil. Yet Kinloch's school tax rate is $2.77 per $100 valuation, against Clayton's $1.68.

Still, the new plan leaves schools outside the scope of the proposed metropolitan government. To correct the inequalities, the group proposes consolidating the smallest districts and giving the county board of education power to determine a standard level of education and levy a uniform basic tax throughout the county. Any district seeking higher standards could add another tax on top of this, and each district would also still levy its own tax for debt service.

• **Accent on the Suburbs**—Throughout

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the whole study, the survey group hardly found it necessary to mention the city of St. Louis—ample testimony to the fact that the really tough problems were in the suburbs.

The group did advise a thorough study of the city tax structure. The city's major need, it found, will be to step up rehabilitation and redevelopment (BW—Sep.10'55,p130) to avert blight. The group sidestepped the question of the proposed new city charter (reducing ward representation on the board of aldermen and strengthening the mayor's power)—which the voters have just recently turned down (BW—Aug.10'57, p38).

• **Chances**—What will happen to the plan now is a moot question. It's a matter of the support it can win in the particular political atmosphere of St. Louis.

In Dayton, where a similar study is just beginning, businessmen were in the lead. In St. Louis, that was not the case—and as a result, no business group is committed to push it.

Mayor Raymond R. Tucker, reelected in April but unsuccessful in the charter fight, is lukewarm.

Alderman Cervantes, who helped start the ball rolling, says his group will file its petitions for a board of freeholders next week. He's sure the board will use the survey as one basis in drawing up its own plan. With Cervantes and the Teamsters behind the survey proposals, it's a question how enthusiastic the business community will be.

For the story of this cleavage in the city—and of St. Louis's economic ailments—see the story below.

Can St. Louis Catch Up Again?

Lagging economically behind competing cities, its efforts to keep pace are hampered by lack of dynamic leaders, business hesitancy in labor-run town, caution of capital.

Behind the problems of divided political authority on which the St. Louis governmental study (page 56) necessarily concentrated are economic and social headaches that are no less acute.

In many respects they resemble those afflicting large cities everywhere—crowding of low-income groups in the central city in the backwash of a suburban exodus, the decline of downtown, the need to rebuild. Yet even these take on a special St. Louis aspect.

Behind them all is one central fact: Because of the slower industrialization of its rural-dominated market area, St. Louis' population and economy have not kept pace with those of cities that compete with it.

This lag is complicated by a number of other factors:

• Once a major distribution center, St. Louis now finds one-third of its warehouse and loft space vacant—made ghosts by technological and corporate changes, losses to newer centers such as Memphis and Dallas. The buildings, useless for other purposes and too costly to raze, cast a pall over downtown.

• The diversity of St. Louis' economy has cushioned the area during bad times but also deprived it of the full buoyancy of the postwar boom. Even with an increase of 10,000 aircraft workers in the past year, total employment of 813,700 still lags behind 1953's postwar peak of 825,500.

• Downtown's decline has been hastened by the failure of the city to attract outside risk capital, by the conservatism of its own third and fourth generation wealth, and by the slowness of its public improvements.

• As a border city, St. Louis has attracted a large influx of Negroes who have jammed old dwellings near downtown, depressing property values, testing race relations, creating health and welfare problems. Too numerous to find a place in the labor force, but apathetic about migrating further north, many simply have gone on relief.

I. Hesitant Businessmen

Leaders of the St. Louis business community are aware of this perplexing picture. "We are worried," a top banker notes. "For the first time, I'm really frightened," says a leading retailer.

But in tackling the problem they see, they have shown a lack of cohesiveness and drive that raises questions about how effective businessmen have been and can be in civic affairs.

• **Early Success**—To put city hall's finances in order in 1953, business leaders formed a group of eight—now 21—called Civic Progress, Inc., and held out big hopes.

In one year, they successfully campaigned for a ½% earnings tax, which now brings in $9-million yearly—one-sixth of the city's budget. Then they turned to other tasks, ranging from assisting the St. Louis Symphony Orchestra to putting over a $110-million bond drive in 1955.

• **Then a Flop**—But this year, when the Civic Progress group hoped to replace the 1914 city charter with one that would weaken the ward politicians and strengthen the mayor, they failed (BW—Aug.10'57,p38).

What happened?

One version is that the businessmen thought once the $110-million bond issue passed, their work was done. But that isn't everything. It well may be that businessmen have weakened their own voice. In their own personal moves to the suburbs, they lost the right to vote in the city, and left behind a powerful coalition of labor and Negroes.

William A. Webb, executive secretary of the Central Trades & Labor Union, says labor controls—through ward organizations—100,000 votes. Though these are only one-third of the registered voters, they seem to be effective. At any rate, the labor-Negro coalition, together with the ward politicians, swamped the charter.

"It may be," a sociologist says, "that our businessmen are afraid to stick their necks out in a labor-run town."

• **Other Reasons, Too**—Other influences, quite likely, also are at work:

• By scattering to several suburbs, businessmen may have broken the links that held them together.

• Increasingly, as firms sell out or merge, St. Louis is becoming a city of absentee-controlled companies. A man who yesterday ran his own firm today is only a vice-president of a larger one from out of town. His St. Louis stature is downgraded.

II. Leader Shortage

An even stronger explanation may be this: The St. Louis business community has no dominant leader. Businessmen acknowledge this, say they are equals.

Some may be more equal than others, however. In Civic Progress, the men who have the reputation of holding the greatest power are David R. Calhoun Jr., president of St. Louis Union Trust Co., and J. W. McAfee, president of Union Electric Co.

Calhoun is widely held to be the most influential man in the city—but he has not taken any strong position as a leader. Said one friend: "Through the trust company, he controls the city's dead money, and through the trust company's control of First National Bank, he controls the city's live money." Calhoun led the big bond drive, has not again been in the spotlight.

Edwin M. Clark, president of Southwestern Bell Telephone Co., currently is president of Civic Progress. But he,

BUSINESS—David R. Calhoun, Jr., of St. Louis Union Trust Co., is regarded as top business leader, works mostly behind scenes.

LABOR—Harold J. Gibbons of Teamsters wields great power, both economic and political; business has to reckon with him.

like others, is inhibited from anything that might look like a dictatorial role by the fact that colleagues on CP sit on his company's board of directors. And in the business community he, like many others, heads a subsidiary—albeit a large one.

Of late, feeling has been strong within CP—and certainly outside it—that CP may need to expand its membership, though not all agree. CP used to boast that—unlike Pittsburgh's Allegheny Conference, after which it was patterned—it has no staff. Now that, too, is subject to serious rethinking.

• **Hampered Mayor**—The businessmen get on well with Mayor Raymond R. Tucker, an ex-officio member of CP. A former engineering professor, he is commended as a competent man, an improvement over his predecessors. But Tucker is a cautious fellow, prefers to take one step at a time.

The mayor has had to rally popular support to push his legislation through the labor-oriented board of aldermen. The aldermen's victory in the charter fight isn't likely to make them easier to get along with.

III. Rescuing Downtown

There's one thing, though, that does bring many of St. Louis' businessmen together—the downtown question.

Bankers, unable to pursue people into the suburbs because Missouri doesn't allow branch banking, know they must stay downtown—and so want to preserve it. Retailers don't want to close downtown stores—though sales there have slipped 12% in two years.

Many others do move out, however. Companies cutting down or eliminating St. Louis warehousing include Rice-Stix, Ely & Walker, Butler Bros., J. C. Penney. Office buildings have more vacancies—though no new building has gone up in 30 years. Companies put up small office structures away from downtown, or in suburbs. Even the St. Louis Post-Dispatch, which campaigned for downtown, has announced a move.

• **Unreconstructed**—Only a handful of downtown buildings have been remodeled. As one banker who rehabilitated instead of building anew put it: "If we'd built something like the Republic Bank Building in Dallas, our depositors would have taken their money out."

One factor holding up public improvements, such as expressways, has been St. Louis' predilection for low taxes and a low municipal debt.

• **Cautious Capital**—It isn't lack of surveys that hold St. Louis back. The Library of Congress has just come up with a survey of the economic picture. Civic Progress is studying a set of recommendations on organizational mechanics that it requested from a public relations firm. Next month, the City Plan Commission will come out with a program for physical improvement of downtown.

But whatever plan is offered, there are only two alternatives to carry it out: private or public capital.

Much of St. Louis' private capital, mainly third and fourth generation wealth, is in the hands of owners who don't feel like touching it, or managers (such as Calhoun's trust company) compelled to take precautions. A member of the Urban Land Institute, which did a 1954 study for CP, had some hard words for the "complacency of third and fourth generation ownership."

Nor have outside entrepreneurs got very far. Typical is the fact that one banker characterizes as "speculators" developers who put up buildings by signing tenants to leases and then getting financing.

Latest outsider to venture in is Wil-

liam Zeckendorf of Webb & Knapp. The city is now studying his proposal on a Mill Creek Valley industrial-commercial-housing redevelopment—but he would require city and federal aid.

Other combined public-private projects have moved slowly. The plaza middle-income apartment project took two elections to get a bond issue, then a year's haggling over price of the land by the downtown, nonprofit sponsors.

IV. Business and Labor

If the stinging charter defeat did anything to businessmen, it hammered home their need for a civil rapprochement with labor.

The cleavage is civil rather than industrial. At the bargaining table, labor and business get on fairly well, with some exceptions:

• The Teamsters, important in a disttibution center like St. Louis, have driven hard bargains, held out threats of strikes. They have been accused of driving away several companies.

• The building trades have made it difficult for contractors in the area to give firm bids. They run up costs by holding down the number of work permits, by featherbedding and jurisdictional strikes. (This is one factor hampering building—and holding back industrial development, particularly on the Illinois side of the river, where more industrial sites are available.)

But though labor joins in charitable drives and some civic issues, the charter split showed how divided labor and management remain on big civic questions.

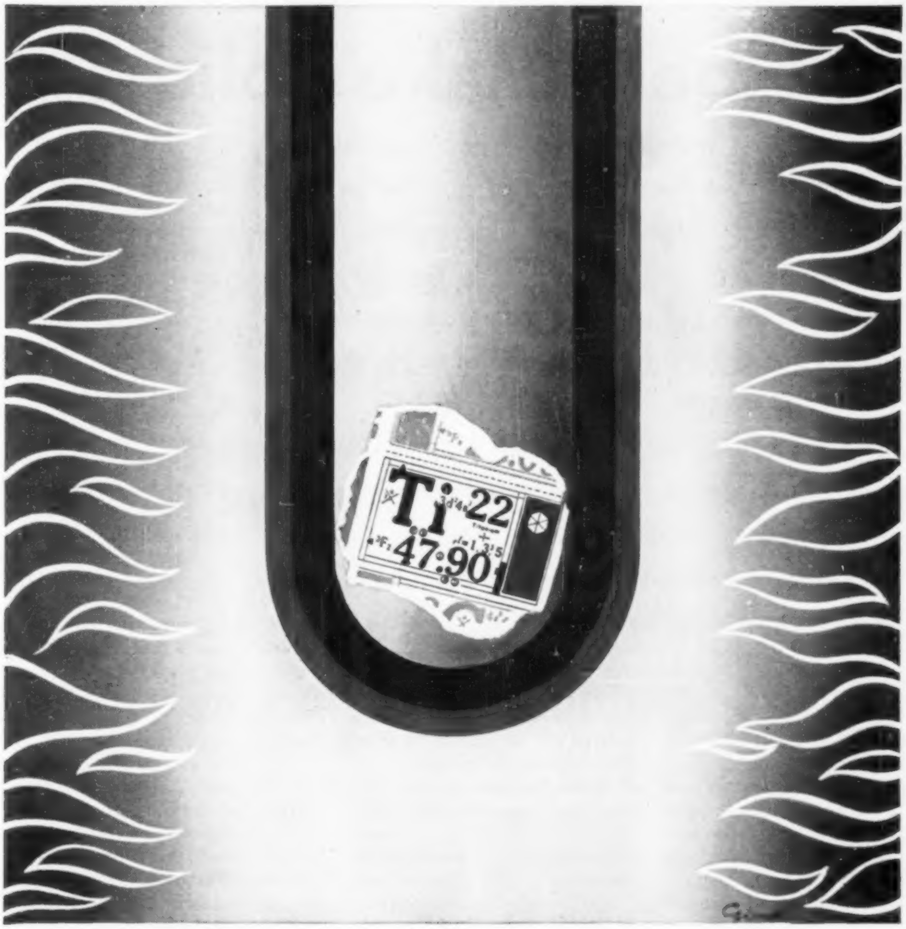
Civic Progress is aware of the difficulty, and even before the charter election it was studying the possibilities of a labor group to work with CP.

• **Problem of Gibbons**—As in many places, business-labor relations in St. Louis are handicapped by personalities. Labor in St. Louis means, on one side of the scale, Harold J. Gibbons, president of the Teamsters Joint Council; on the other side, the rest of labor's leaders. Gibbons says of three other top St. Louis labor men: "Together, they don't add up to zero."

Gibbons has made enemies within labor; unions envy benefits he provides his members, but feel he creates antagonism to labor. In business, he has made enemies as much by his political as by his union activities.

Gibbons represents strength, so business must work with him—but it finds the prospect a bitter pill, and is perplexed over how to deal with him.

Even the prospect that Gibbons might move up in Teamsters ranks if James Hoffa becomes president has its uncertainties. No one feels that Gibbons would take his influence away with him if he went elsewhere. END



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Metal Fibers Make Solid Shapes

● New process is regarded as a step beyond powdered metallurgy. It uses fibers instead of powder to make solid metal shape with a range of unusual properties.

● The key to wider use of this process may be American Viscose Corp.'s method of spinning long filaments like cotton candy. It assures uniformity, permits fiber to be chopped accurately to desired lengths.

● Fibers can then be matted together, in a process that resembles paper-making, and compacted for various qualities of strength, heat resistance, porosity.

● The new material could be a strategic gain for aircraft, plastics, and other industries.

Few people apart from specialists noticed it, but a few years ago a new method of shaping metals was added to the familiar ones that have been used for thousands of years: casting, which is pouring molten metal into a mold; forging, which is hammering a piece of metal into shape; and machining, which is cutting the metal to shape.

The new way was to powder the metal and then squeeze it into shape, bonding it with heat and pressure. Powder metallurgy, it was called (BW–Mar.28'53,p43). This month, an experimental variant of this process, using metal fibers instead of powdered metal suddenly looks very promising. Word is getting around that American Viscose Corp. is in the final stages of developing an inexpensive new method of turning out metal fibers—the raw material for fiber metallurgy.

This development could provide important new materials for the plastics, ceramics, electrical, and aircraft industries.

• **Educated Scouring Pads**—Many metal fibers have been commonly used in industry for many years. Shavings from common metals are familiar to generations of Americans in the form of a variety of products, ranging from insulation to scouring pads. But fiber metallurgy goes many steps beyond the "steel wool" type of thing.

It is a method of forming complex metal shapes from metal fibers or filaments. Researchers at the Armour Research Foundation, Illinois Institute of Technology, are credited with developing the original process of forming metal bodies by sintering (compacting by heating to below the metaling point) metal fibers. Such metal bodies are strong and tough, as well as being just about as porous or non-porous as the metallurgist chooses.

• **Fiber Problem**—Ordinary short metal fibers used in scouring pads and other familiar products aren't always good for fiber metallurgy. The fibers are likely to be brittle, with ragged edges; their length can't be accurately controlled. Only the more machinable of metals can be shaved as fine and as long as the fiber metallurgist would like. And some metals with physical properties that would be desirable in a compacted product can't be shaved into fibers at all.

Some experimenters have tried drawing the fibers like wire, but the process is costly and yields uncertain results.

Avisco's process, now in pilot-plant stage at Marcus Hook, Pa., is said to get around these problems by spinning off threads of molten metal, the way cotton candy is made at circuses and county fairs. The filaments can be made either round or flat like a ribbon. Moreover, they don't need to be annealed before being processed into usable shapes.

• **End Uses**—Successful fiber metallurgy could be applied immediately to several end products: filters, turbine blades, airfoils in de-icing systems, storage batteries, cooling systems, and new high-temperature ceramic-metal materials.

In the more distant future, it could evolve a whole new series of materials to solve pressing technological problems.

In the aircraft industry, for example, it might help in boundary layer control, the new system of reducing air turbulence over a wing by driving a steady flow of air out through the skin from inside the wing. If the entire wing could be made of a porous yet strong fiber metal, this flow of air could be almost perfectly distributed, giving a plane increased lift with less drag.

The reinforced plastics industry could also come to depend on fiber metallurgy as a supporting skeleton for plastics. Tests have already shown that compacted metal fibers can greatly reinforce plastics. Cheap availability of a long, smooth metal fiber of high tensile strength could go a long way to greatly extended everyday use of reinforced plastics.

• **Advantage Over Powders**—Strands of metal have one quality that metal powders lack: They can be felted—matted together—the way cellulose fibers are made into paper. Metal fibers can be suspended in a slurry of some viscous liquid, such as glycerin, and fed into a felting tank; they will mat on the surface of a moving belt with the help of suction through the belt as it passes over a drum.

Sintering (baking) will then give the felted metal fibers greater rigidity or will compact them for higher density. Tests of both ferrous and non-ferrous metal fibers show, too, that the finished material will be stronger if the original fibers have been kinked before being felted.

• **Variations**—Then, too, if the felting is done on a form instead of on a belt, almost any shape of end product can be obtained.

For high-density parts, for example, felted metal fibers can be compressed between rollers or in dies. Or complex shapes can be compacted hydrostatically, using a sac to transfer pressure to the metal part. If high strength as well as porosity is desired, felted steel fibers can be "glued" together with molten copper—a brazing process.

The cold-rolling of sintered stainless steel felts is another possibility. By forcing felted steel fibers into more intimate contact by rolling, experimenters predict they will be able to produce metal sheets of almost any density and thickness.

• **New Raw Material**—Up to now, the only metal fibers commercially available have been shaved or drawn, with the shaved type less costly. However, shaved fibers come in uneven lengths, mostly shorter than fiber metallurgists prefer, and are hard to cut to uniform length for felting. To insure uniformity in the finished product, fibers for felting must

". . . Westinghouse is concentrating on the use of fiber metals in transpiration cooling systems . . ."

STORY starts on p. 70

be a precise length, usually somewhere around ⅛ to $\frac{3}{16}$ in.

Avisco's process, however, turns out a smooth, continuous fiber that can be chopped accurately. Its developers expect to be able to produce extremely slender fibers, at a cost only a few cents above the ingot price of the basic metal.

As one enthusiastic observer of the process reports: "Metal fiber comes off the wheel of that experimental unit so fast that the company's engineers are having trouble collecting it."

• **Research Payoff**—American Viscose started research on the metal spinning unit about five years ago.

As work went along, the company called in Arthur D. Little, Inc., to help explore some of the engineers' ideas. Then Avisco heard that Dr. Robert Pond of Johns Hopkins University was working along parallel lines. It studied his process and obtained exclusive rights to his patents from Marvalund Corp., owner of his basic ideas.

Avisco set up its pilot plant at Marcus Hook in 1955. Before announcing its process, the company has been trying to eliminate a few technical bugs. Meanwhile, it says, no policy has been decided for either manufacturing or licensing. Privately, those closest to the project say they don't see how it can be kept under a blanket much longer.

• **End Products**—Meanwhile, other researchers are studying fiber metallurgy from the view point of the consumer, trying to find new uses for the materials made from metal fibers. Armour Research Foundation is working with the government and with seven companies that have licenses to Armour's basic fiber metallurgy patents.

One of these companies is the S.O.S. Co. of Chicago, maker of scouring pads, steel wool, and Tuffy knitted plastic. In another couple of weeks, S.O.S. will have a small pilot plant working. With help from Armour technicians, it has already produced some sheet material.

S.O.S. isn't thinking of using the new process for its present products but for an entirely new line, such as industrial filters. It sees itself primarily as a producer of the metal fibers used in fiber metallurgy, though it isn't rejecting the possibility of making end products, too.

Westinghouse Electric Corp., another Armour licensee, is concentrating on the use of fiber metals in transpiration cooling systems, where liquid or gas passed through the metal shape

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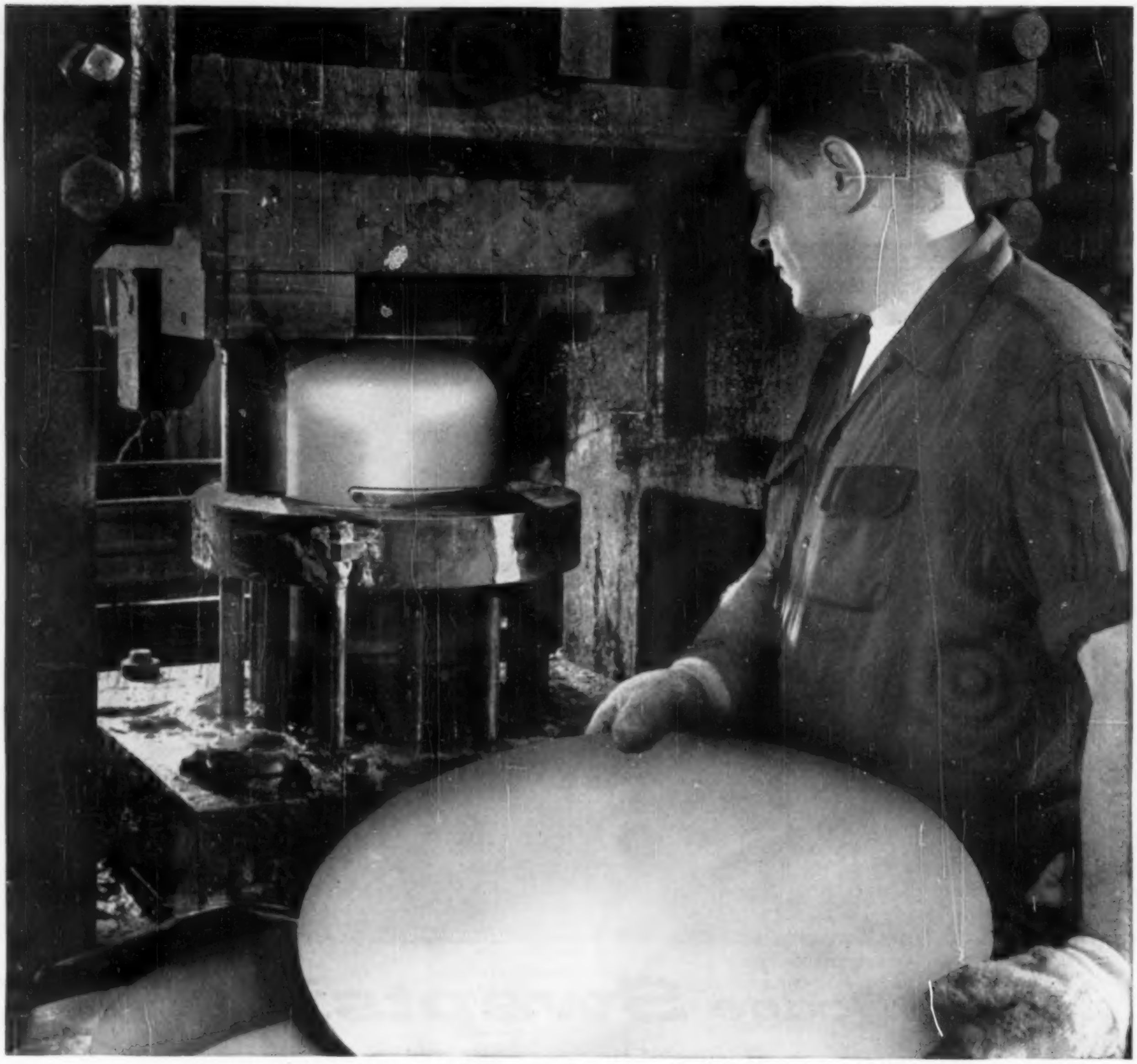

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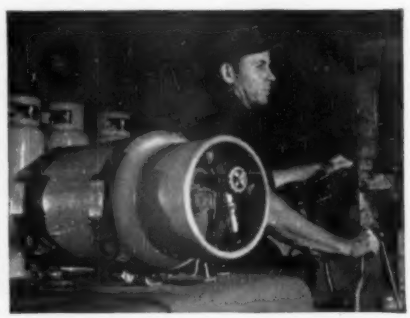


Finished product on the job. This cylinder, meeting all specifications of I.C.C. code, Section 4BA, contains liquefied petroleum for materials handling truck.

would reduce operating temperatures.

Northrop Aircraft, Inc., is running a variety of experiments on how to take advantage of fiber metals' high ratio of strength to porosity. These include tests of incorporating fiber metals with refractory materials to gain higher impact strength and heat resistance, and tests of fiber metals in the honeycomb panels (BW–Mar.2'57,p62) and rudder sections of planes.

Government researchers are also sorting out possible applications of fiber metallurgy in military equipment, such as the power plants of rockets and jets —where today's high-temperature materials leave something to be desired.

The seven Armour licenses were issued since last Jan. 1, but the appearance of a new and apparently better way of producing the raw material—the metal fibers—is sure to spur research and development all along the line.

RESEARCH BRIEFS

Man-made flames that are almost as hot as the sun's surface are now being produced at Temple University, Philadelphia, to test high-temperature materials. Key to the ultra-high temperatures is the use of ozone rather than oxygen in burning hydrogen and other gases.

•

"Four-square" silicon iron, a doubly-oriented magnetic sheet material that is easily magnetized in four directions, has been developed at the General Electric Research Laboratory in Schenectady, N.Y. Lower energy losses and reduced noise in many types of electric equipment can be expected.

•

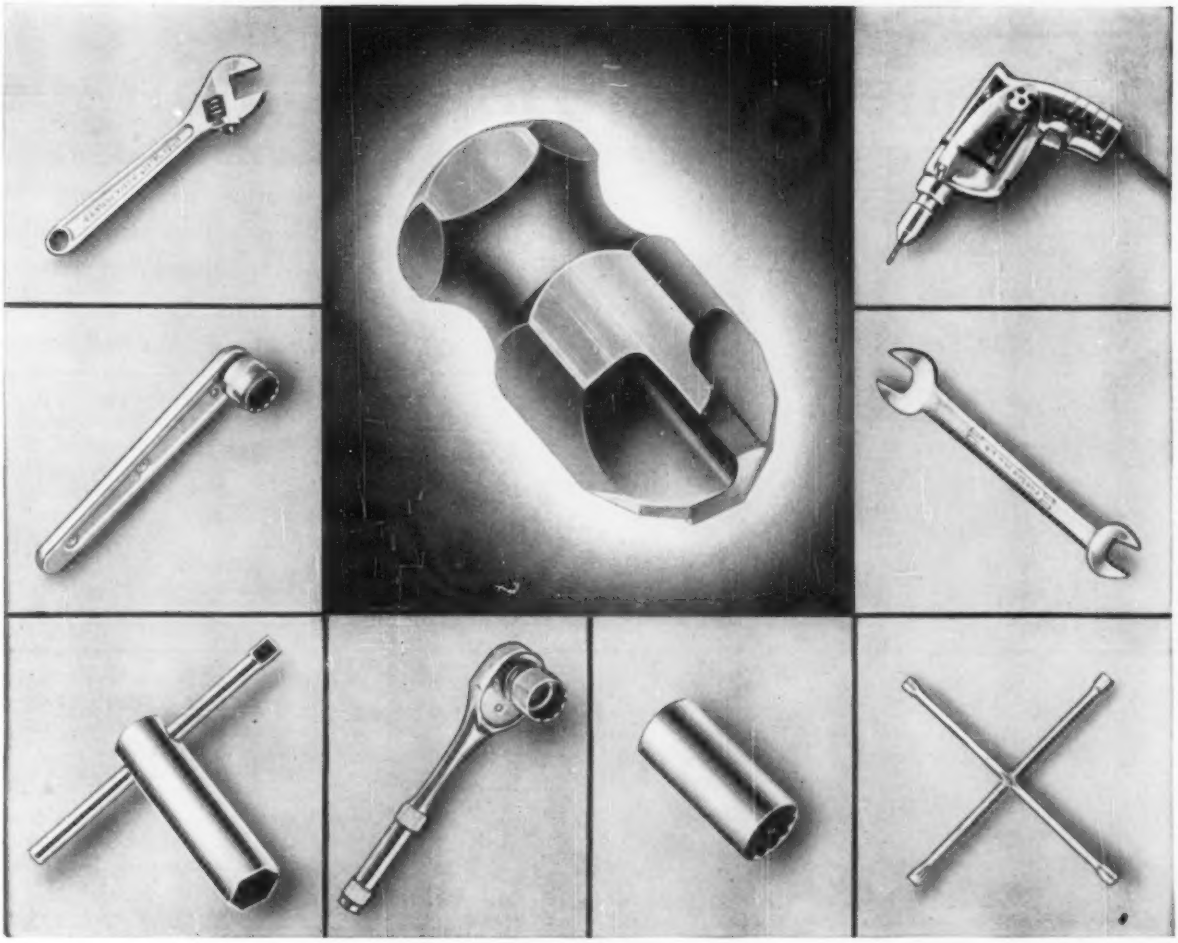
Radioactive isotopes will be used by most hospitals in simple tracer studies within the next 10 years, the American Society of Medical Technologists was told last week. Any technician capable of performing microbiological laboratory tests will be able to learn to use radioactive isotopes, speakers said.

•

Square bubbles—the first ever reported to have been observed in nature —were found recently during experiments at General Electric's Knolls Atomic Power Lab. No practical value is now foreseen for the brilliantly colored microscopic bubbles, found in irradiated lithium fluoride crystals.

•

A new device with which the blind will be able to "read" standard printed words is in the drawing board stage at Battelle Memorial Institute. Described as an "audible reading machine," the electronic instrument will, when miniaturized, be small enough to be held in the hand.



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2. **Tool Strength:** the bit well-balanced to recess strength.
3. **Tool Accuracy:** extreme accuracy and added strength through forging or coining to finished dimensions.

From a tooling standpoint, assembly is simplified because the TORQ-SET bit is a one-piece unit that can be used with any driving tool. Only 3 socket sizes are needed to fit the entire range of TORQ-SET bits.

From a service standpoint, you can use a wide range of tools with the bit to install or remove TORQ-SET (see illustration). What's more, the bit design lets you get in close to the work area . . . no need to have wide-open work space to apply a tool. No adapter is needed.

From a design standpoint, bit and recess are so balanced in strength you get full benefit of maximum torque (well above actual requirements) without burring or distortion of either member.

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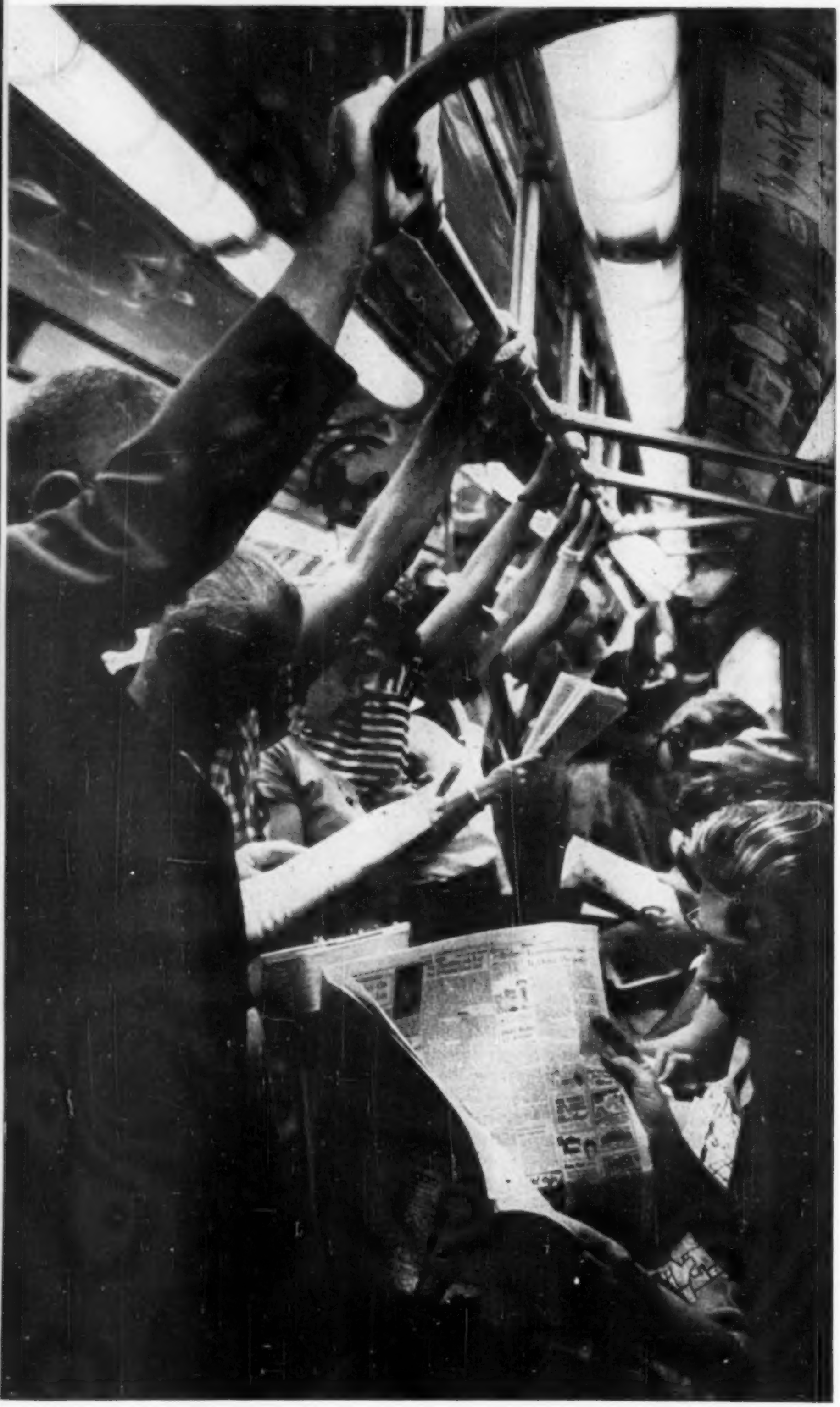
A Business That Hangs on Straps



New York is trying to stave off another transit fare rise. Problem is that straphangers swamp the buses and subways at rush hours (pictures), but in between cars are half empty.

The man on the cover, Charles L. Patterson, labors mightily to reduce costs—but not because he has any interest in squeezing more profits out of the $266-million a year organization he heads. What he wants is to keep the price of the product from going up.

The organization is the New York City Transit Authority. And the product is an essential one—essential to the very existence of a modern metropolitan area. It is public transportation. Without it, New York would strangle as it almost did one blistering afternoon last summer when many subway motormen walked off their jobs.

• **A Trend**—Public authorities are appearing with increasing frequency these days. Time after time, people decide they want to run publicly essential services and properties that private enterprise ordinarily manages. The result is something usually called an "authority." Although no two authorities are exactly alike, they do have one main feature in common: They operate as a function of government but otherwise they are businesses.

Having a foot in both camps, authorities have to feel out the best way of operating as they go along. Because they are still relatively new, many of the rules haven't been made yet. Among other things they take a new kind of manager, an authority man. And as the use of authorities grows, so will the demand for men like Patterson of New York.

• **Non-profit Business**—In spite of the fact that the city couldn't get along without it, New York's transit system does not return a profit. According to the Transit Authority, if fares were raised to the point where they covered all costs, millions of riders would desert the system. Having a transit system that many people wouldn't use would work almost as much havoc on the city's economy as no transit system at all. And so, a compromise has been worked out. A zone of balance has been achieved between maximum use and needed revenue. Taxpayers must make up the difference.

Right away, though, this brings up an important problem: How do you run

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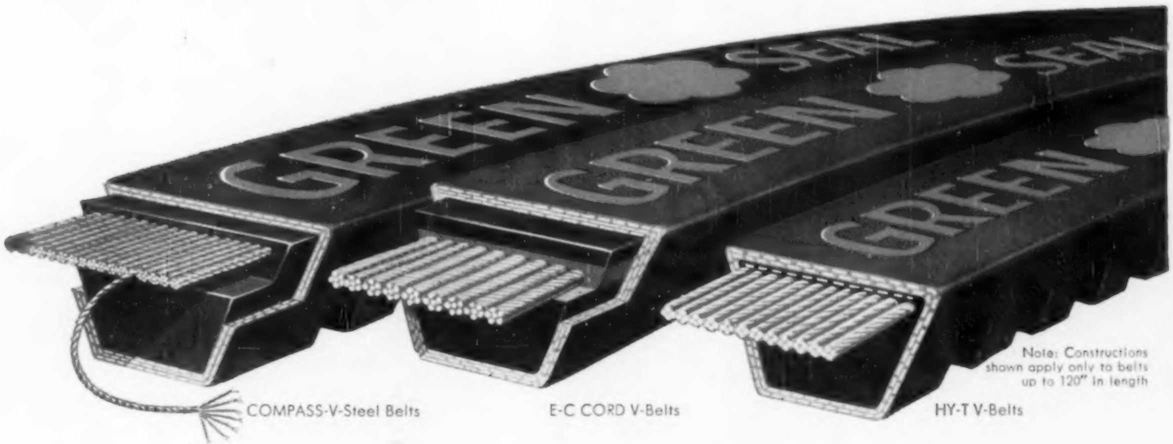

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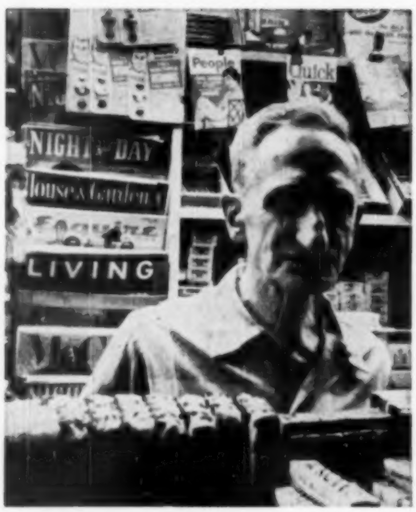
New York's old nickel subway fare, once the big transit bargain, has trebled since 1948. Today, Manhattanites fork over 15¢ to squeeze into overcrowded cars.



(Story starts on page 78)

a huge "business" efficiently when it is semi-subsidized, when you can work out of a bottomless pocket?

Without the usual profit motive, and without a militant group of stockholders keeping a beady eye on corporate affairs, some of the normal drive for efficiency must be missing.

• **Who's Who**—Part of the answer as evolved by the City of New York after years of trial and error has been to set up an authority whose ground rules give it many overtones of private enterprise. For one thing, the city has taken away the bottomless pocket. Another, and perhaps more important, part has been to find a management team with the special capabilities to make such a setup work.

At the policymaking level of the Transit Authority are three men—one named by the governor, one by the mayor, and the chairman who was selected by the other two. Chmn. Patterson, who was a vice-president of Bessemer & Lake Erie RR, is in charge of operations and engineering. Joseph E. O'Grady, formerly Mayor Wagner's commissioner of labor, is in charge of personnel, labor, and public relations. The third man, E. Vincent Curtayne, a former senior trust officer of the Manufacturers Trust Co., supervises the accounting, legal, and financial affairs.

For 34 of his 51 years, Patterson has been a railroader, starting as a machinist's apprentice on the Pennsylvania. Although he took a salary cut when he came to the authority, there's no doubt

but that his new job offers more of the challenge and responsibility on which he thrives. Also, after he came to the authority, the necessary legislation was passed to raise his salary to $35,000.

Because authorities are neither all government nor all business, their chiefs aren't quite in the position of either government career men or unconverted private industry officials. One of the most interesting questions about the growing authority technique is what kind of man typically heads an authority, and what kind does well in the job.

In Patterson's case, he feels it is extremely important to be sympathetic to the thinking of City Hall, but at the same time be willing to go in and fight for money—something a career civil servant might shy away from.

A hard-working executive with an eye to getting back eventually into a top spot in private industry, Patterson is also extremely friendly. He considers the entire population of the city as his stockholders, and says that the authority's office often takes on the atmosphere of an annual meeting. Of Scotch descent, he learned at an early age to extract every bit of value from his money —a practice he has carried into the Transit Authority.

I. Slowdown in Revenue

As municipal transit systems go, the New York Transit Authority is huge. The city estimates its total investment has been approximately $2-billion, and the cost of replacement today would be between $6-billion and $10-billion.

The authority operates 9,000 trains a day on weekdays over 724 miles of track plus approximately 2,200 diesel buses and trolley coaches over 558 route miles.

Although New York subways were for years privately and profitably operated, they have never been entirely free from strings to City Hall. It was the city that dug the tunnels and leased them to the old Interborough Rapid Transit Co. and Brooklyn Manhattan Transit Co.

In 1940, the city took over the IRT and BMT for $315-million, merging their operations with its own lines under the Board of Transportation, an integral part of the city government. The city undertook to make up any operating deficits and pay for any capital improvements.

Fortunately, during gas rationing days of 1940-45, there was actually an operating surplus from transit operations. But in the fiscal year ended June 30, 1947, losses began. Doubling the traditional 5¢ fare failed to halt the deluge of red ink. By 1953, the annual deficit reached $46.1-million. Faced with boosting the fare again and realizing that running the transportation network as part of the government was not working, the city dissolved the Board of Transportation and set up the first Transit Authority.

• **Backstops**—This authority consisted of five part-time officials, two appointed by the governor, two by the mayor, and the fifth selected by the other four. It was then that the important step was taken of divorcing operations from the government. The new management was permitted to set whatever fare it believed necessary, but it had to pay close heed of one edict: The authority must not lose money from its operations.

The necessity of being self-sustaining is undoubtedly the most important factor giving private industry incentives to what is still a semi-governmental body.

On July 25, 1953, shortly after the first authority was established, the fare went to 15¢—where it remains today. Each year since then, the authority has been able to put a small surplus in the bank. The total now exceeds $24.3-million, but the authority declares it will have to dip into this soon to make retroactive social security payments.

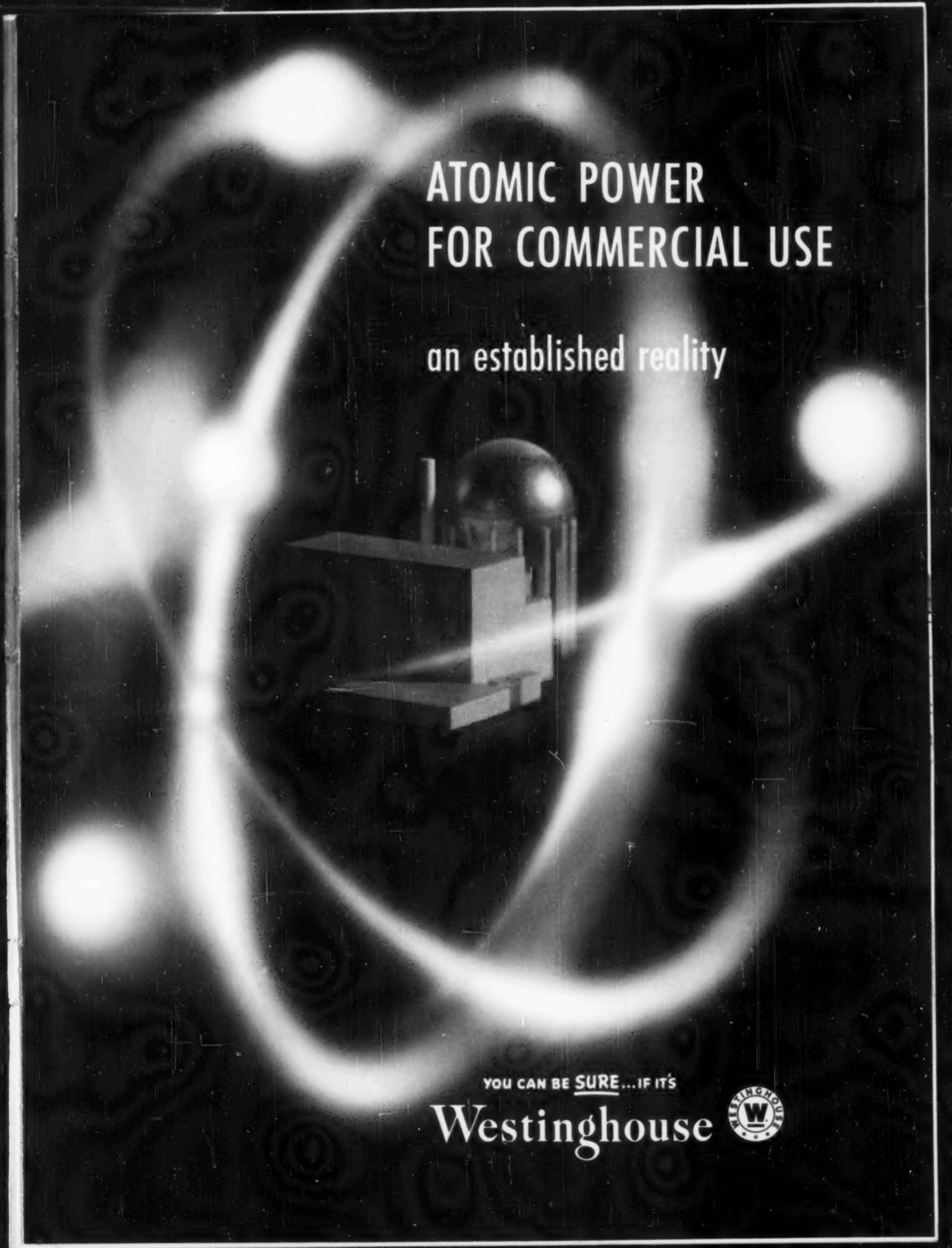
• **Taxpayers Hit**—The new authority, which took office July 1, 1955, differs from the old in that its three members work full time. Although the new and the old authorities have ended each year with a surplus, it would be a mistake to consider the Transit Authority profitable. The City of New York and its taxpayers are responsible for the interest and amortization charges on the debt incurred by the system for capital expenditures.

In fiscal 1957, this amounted to almost $77-million, which is equivalent to a subsidy of just over 4¢ for each rider.

• **Two Schools**—There is a body of opinion in New York that feels the city, its retailers, offices, and industries would benefit so much by free municipal transportation, that the buses and subways should be subsidized entirely. To this, the authority answers that were it not for the necessity of having its operations self-sustaining, there would be no incentive for efficient management. Without that, municipal transportation would cost far more than it does.

Conversely, there are New Yorkers who would like to see the fare set high enough to cover all costs. From past experience, however, the authority knows that every time the fare goes up, it loses riders. Either they drive their cars downtown, clogging the streets and making the city's bus service even slower than it is, or they don't come downtown at all.

Desertion of available transit facilities not only hurts the authority, but it affects the economy of the city itself. Fewer people coming downtown mean that the biggest taxpayers—stores, offices,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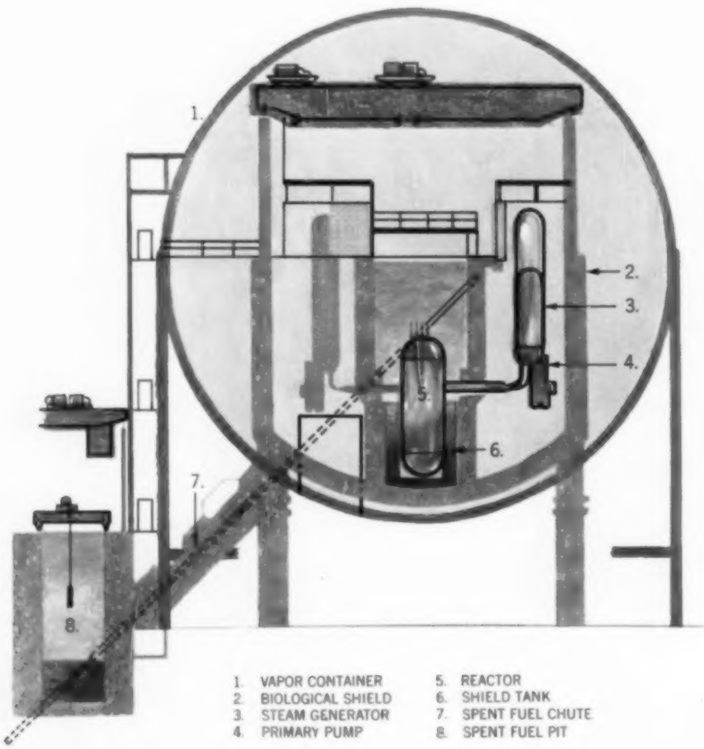
This first atomic power plant in New England will be similar to a standard steam-electric station except for the "boiler" equipment. An advanced, pressurized water, atomic reactor (using uranium as fuel) with its controls, auxiliaries and heat exchangers, will replace the conventional coal or oil-fired boiler.

The research and development program for this project is being financed jointly by the Yankee Atomic Electric Company and the Atomic Energy Commission. The AEC, through its Power Demonstration Reactor Program has agreed to underwrite up to $5,000,000 of this research and development cost. This research will benefit any company which later uses a reactor of this same general type. Yankee Atomic Electric Company has contracted with Westinghouse to carry out the research and design for its atomic reactor.

The Yankee plant is scheduled for initial operation in 1960.



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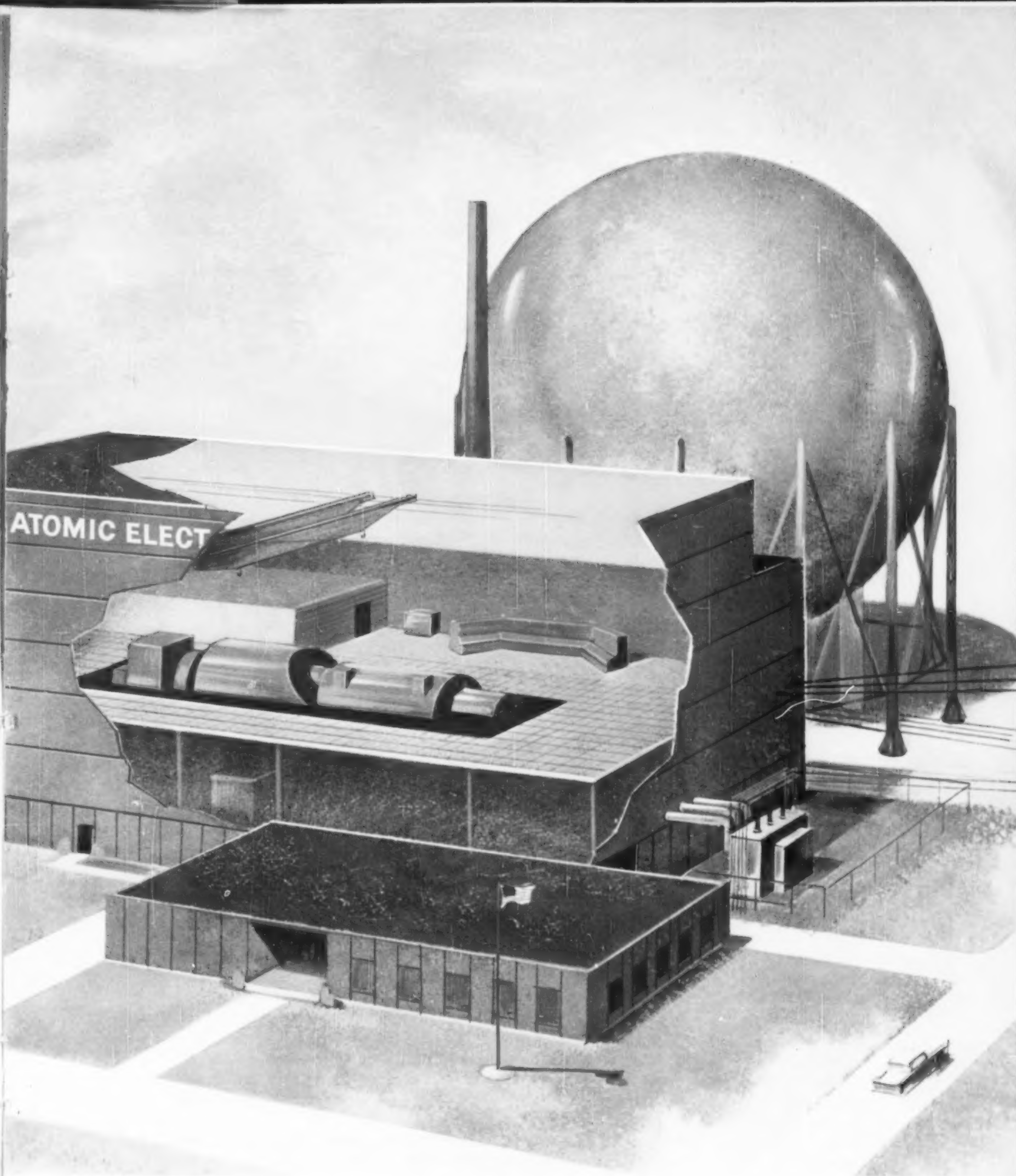
ATOMIC ELECT

and theaters—are doing less business.

For these reasons, New York decided on its present course—to compromise on who pays how much of the transit bill, and to try to run the system with as much efficiency as a well-run private business.

II. Modeled on Private Business

The most important step the present authority has taken has been to spend money. Says Patterson, "With labor and materials costs rising constantly, with the rapid transit lines growing more dilapidated and more expensive to run, and with a history of declining patronage, we had to spend money to make money and give the people better service."

• **Funds on Tap**—In this, the authority was fortunate that it had the money available.

Shortly after World War II, the voters of New York State passed a constitutional amendment permitting the city to exceed its debt limit by $500-million "for the construction and equipment of new rapid transit railroads . . . and reconstruction and equipment of existing rapid transit railroads." Although the amendment didn't say so, there was considerable advertising of the fact that money would be used to build an entirely new subway underneath Second Avenue.

Instead, this money is now being used for painting, refurbishing, new equipment, new tools, and so on. Patterson is applying the standard business practice, and more particularly, the standard railroad practice, of fighting inflation with mechanization.

• **Two Battlefronts**—This fight is being waged simultaneously on another front, however. The rapid transit system, like all railroads, is capable of increasing revenues without increasing costs proportionally. The New York subways, as is demonstrated every morning and afternoon, can handle tremendous crowds. The rest of the time, though, they are operating far from capacity.

By cleaning and relighting stations, by acquiring new cars, by adding transit police to increase safety, and possibly by air conditioning, Patterson hopes to reverse the downward trend in patronage. In the last 10 years, the subways and city-owned buses have steadily lost patrons until 1957, when the authority counted just under 1.8-billion riders, down a third from 1947.

In the latest fiscal year, however, the trend appears to have been halted. And in the 1958 budget the authority has not anticipated any drop in revenue. Now the uphill fight begins to attract riders back during the off-peak hours.

• **Trimming Costs**—Meanwhile, behind the scenes, money is being spent to reduce the size and cost of the labor

force. At present, the authority employs 39,355 people, down 3,496 from July 1, 1955, when it took over. According to Patterson, none of these were laid off "except through attrition, resignation, and dismissals."

Despite wage increases granted over the past two years, which total $19-million annually, the authority has managed to shave the total wage bill from $187.6-million in fiscal '55 to $187.2-million in fiscal '57.

While the number of people employed and the total wage bill has been reduced, service on the rapid transit lines has increased from 298.2-million car miles in 1955 to 305.3-million in 1957. Bus miles on the surface lines have been reduced from 73.8-million to 67.2-million in the two years, Patterson admits, but only after detailed studies of the riding habits of the public.

• **Productivity Up**—The new management has also been able to increase the productivity of men on the job through better scheduling of equipment, better planning of work, better trained supervision, elimination of unnecessary operations, and mechanization.

One example of this is evident in the bus painting shop, which formerly turned out two buses a week and now turns out two a day with no increase in personnel. Another is found in track renewal. Using hand methods, it took 1,600 man-hours to relay 150 ft. of track. On a recent test, 993 ft. were done in 2,280 man-hours. Cost by the old method was $45 per ft. By the new, it was $24.

The over-all hope of the authority is that if it can continue to reduce costs despite inevitable wage increases, and if it can raise revenues by attracting riders back to subways and buses during off-peak hours when the equipment is semi-empty, it can hold the fare at 15¢ for several more years.

III. Future Is Hazy

But there is a cloud on the Transit Authority horizon, and it could be a big one.

To get capital, it has to go to City Hall and fight for it. It has no profits to pay for improvements, and it cannot take depreciation on its equipment, since the city is the real owner. In the final analysis, the authority has to go to the taxpayer, who already feels that he is heavily burdened paying for schools, hospitals, police, sanitation, and so on.

• **Budget Problems**—Most of the rehabilitation program has been paid for by borrowing under the $500-million exemption from the debt limit. As of next Jan. 1, however, a total of $392,-265,731 will have been appropriated or encumbered. This leaves $107,734,-269. And the authority's capital budget

for 1958 calls for expenditures of $129,207,650.

The authority hopes and believes that the program will be substantially completed when the $500-million is used up. If it isn't, says Patterson, the city will have to provide funds in its budget to finish the job—if New York wants a good transportation system.

In this connection, Patterson hopes New Yorkers won't forget what happened the afternoon subways stopped running last year. Automobile traffic became so heavy practically all forward motion in the city was stopped.

Although the city has, in the past, budgeted money for the Transit Authority in addition to the $500-million, and shows no signs of not continuing to do so, the matter of raising new capital is one area where the authority, being a hybrid, might not work. No matter how astute and dollar-conscious the authority management may be, without money it can do nothing.

• **Labor Relations' Snags**—Another such area, and one where danger comes closer to reality, is in labor relations. Because the authority is performing a function of the government, its employees are forbidden by law to strike. At the same time, the authority is not obligated to deal with unions.

While this appears to give management all the weapons, it doesn't work out that way.

Because dealing with anyone and everyone individually looks like a hopeless proposition, the authority would like to deal with responsible labor organizations. What trouble there is has arisen when new unions are organized and new demands made just when the authority thought it made a contract that would last for several years.

"Because labor doesn't have the right to strike," declares O'Grady, "we could sit around bargaining tables forever without getting anywhere. So we had to set up impasse-breaking machinery.

"We are the ones with the final responsibility of insuring that the Transit Authority doesn't lose money, so we can't allow an outside group to come in and take over the management function of deciding wage increases. What happens is that a fact-finding rather than arbitration board is designated by the mayor with approval of the authority and unions involved. This board makes advisory recommendations."

So far, with the exception of last summer's walkout, the labor setup has worked because it is in the best interests of both sides to make it work. But as the authority knows, there are places and occasions where it might not work. "What we're trying to do," says O'Grady, "is institute private industry bargaining in the Transit Authority. If we can, it will benefit the employees, us, and the city." END

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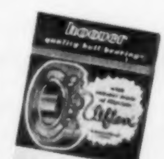

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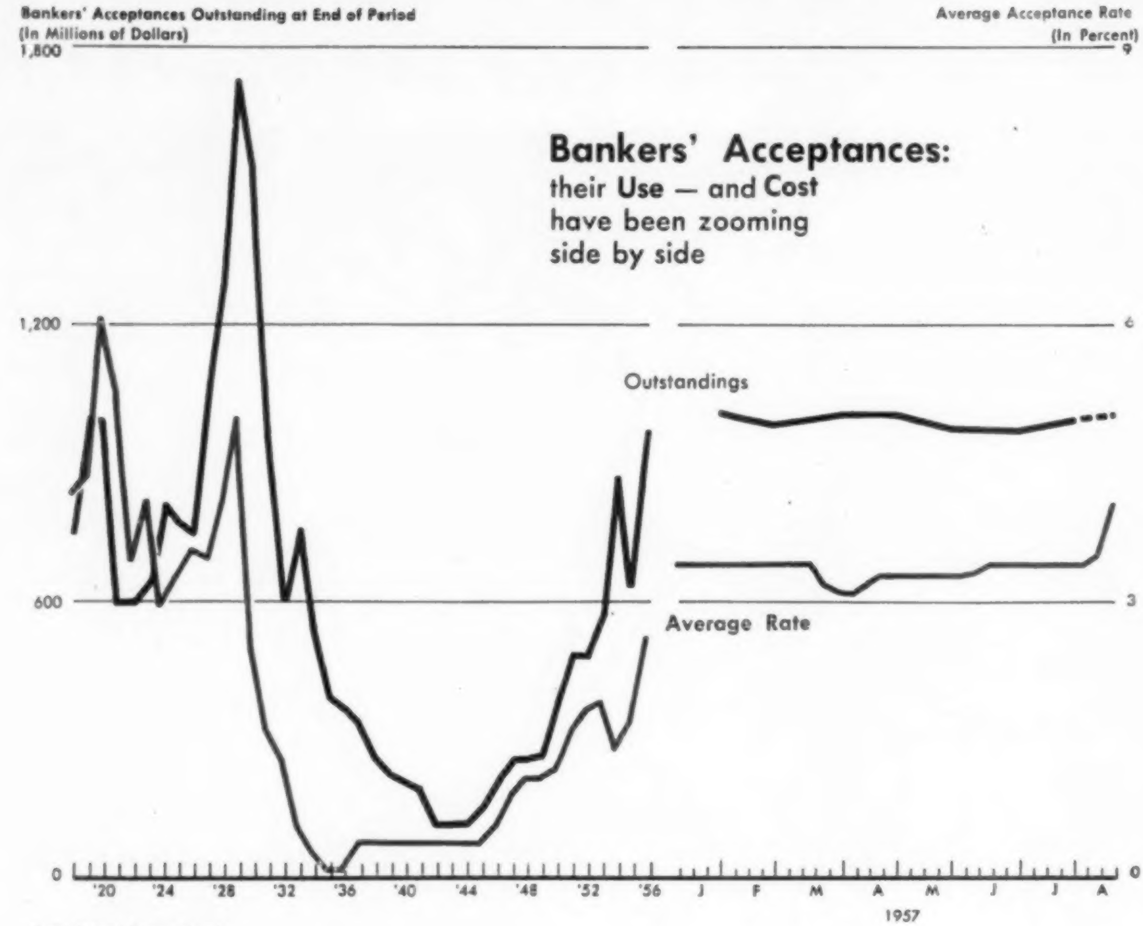

Data: Federal Reserve Board.

Bank Bills Are Sprightly Again

Thanks to tight money and bustling foreign trade, the bankers' acceptance is now more popular—and expensive—than at any time since 1930. Most finance commodity deals.

As the scramble for new money daily grows more frenzied, eager borrowers are ignoring no segment of the money market. To dispel any doubts, look at the recent bulge in activity in little-understood bankers' acceptances (chart, above).

Bankers' acceptances outstanding are still far below their record level of $1.7-billion in 1929. But this week they stood at slightly more than $1-billion—the highest since 1930. And they leaped from about $642-million in 1955 to about $967-million in 1956—the biggest one-year gain since the 1929 peak.

Under the demand for this mode of financing, and pressure from money market conditions generally, interest rates for acceptances last week took their third jump in seven days. Ninety-day acceptances—the most common variety—ended the week at $4\frac{1}{8}\%$ bid, up $\frac{5}{8}\%$ from the start of their seven-day surge. This was the highest rate in 27 years.

• **Definition**—A bankers' acceptance, or "bank bill," is a bill of exchange that is "accepted" by a bank. This means that the bank guarantees its payment. This guarantee makes the acceptance as readily salable as any other high-grade short-term paper in the open market at rates varying with the length of the bill and, of course, the state of the money market. In effect, the investor buys—at a satisfactory rate of discount—a certified bank check payable at a future date. Last week saw 30-to-90 day bills quoted at $4\frac{1}{8}\%$ bid, 4% asked; 120-day bills at $4\frac{1}{2}\%$-$4\frac{1}{8}\%$; 180-day bills at $4\frac{3}{8}\%$-$4\frac{1}{4}\%$.

Bank bills are used primarily to finance the movement or storage of merchandise, mainly commodities. Lately, acceptances drawn to finance exports have constituted about 51% of the bills outstanding in the U.S. Imports accounted for about 23%; foreign shipment and storage, around 17%; domestic shipment and storage, 6%, and dollar exchange, 3%.

• **Behind the Rise**—The first of the recent markups in the bank bill rate was caused by the general advance in short-term rates that followed the rise in the

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prime commercial bank loan rate from 4% to 4½% on Aug. 7. This moved the acceptance rate up ¼% to 3¾% bid for three-month bills. The next two increases—of ⅛% on Aug. 13 and ¼% on Aug. 14—were related mostly to the cotton crop.

About $500-million worth of 1956 crop cotton held by the Commodity Credit Corp. under its loan storage program was sold several weeks ago to commodity dealers. The CCC required purchasers to pay for their lots by Aug. 16, but not before Aug. 8. The dealers planned to finance about half their purchases through acceptances at the rates prevailing before Aug. 7—the day the prime rate went up.

• **Sample Case**—The easiest way to see how acceptance financing works—and to understand what the cotton crop had to do with the rates—is to take a hypothetical case. Let's say a cotton merchant needs $10,000 to finance the purchase and storage of some cotton. He goes to his bank and writes an order instructing the bank to pay $10,000 in 90 days to anyone presenting it for payment. In return, he promises to deposit subsequently enough cash to cover this "time draft" before it matures. The cotton dealer can have the time draft converted into a bankers' acceptance by asking the bank to stamp it "accepted." The bank will do this if his credit is topnotch and the cotton itself is security.

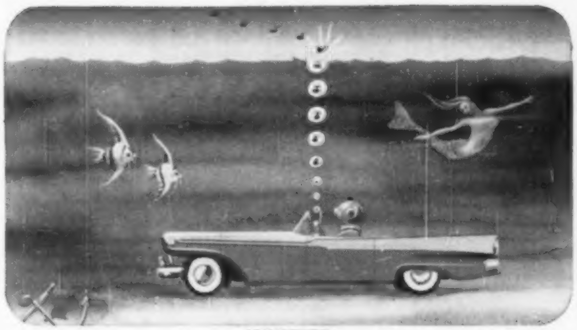
The bank, of course, has obligated itself to pay off the acceptance when due. So the bill is backed not only by the cotton, but also by the bank and the cotton merchant. The merchant pays his bank a commission for the service at ⅛% a month. Once the bank "accepts" the draft it becomes easily negotiable, since the holder is assured of face-value payment at maturity.

• **Sold for Cash**—But the cotton merchant needs his money now, not at maturity, in order to pay the CCC. So his bank takes the acceptance to an acceptance dealer. The dealer buys it for cash, less a discount that currently runs at the rate of 4⅛% a year on 90-day bills. The bank is therefore able to fill the cotton man's money requirement without necessarily using its own funds. Later on, when the merchant sells the cotton, he can pay off the acceptance when it's presented for payment.

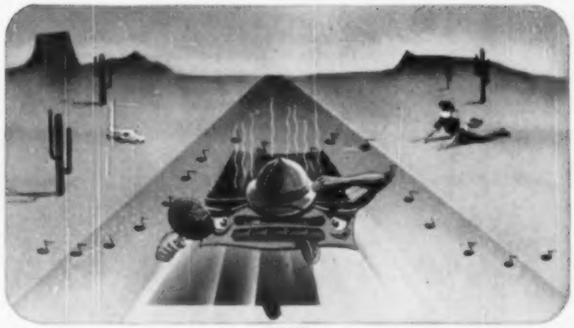
For this service, the cotton merchant had to pay his bank a commission of $37.50 and the acceptance dealer about $103.12. In other words, his cost of financing $10,000 in this case was around $140.62, or 5⅝% a year.

The acceptance dealer now sells the bill to an investor for a fraction more than he paid for it. Last week, the dealer could buy a $10,000 acceptance for $9,896.88, then sell it for $9,900—for a profit of about $3.12.

• **Flooded Market**—What happened in



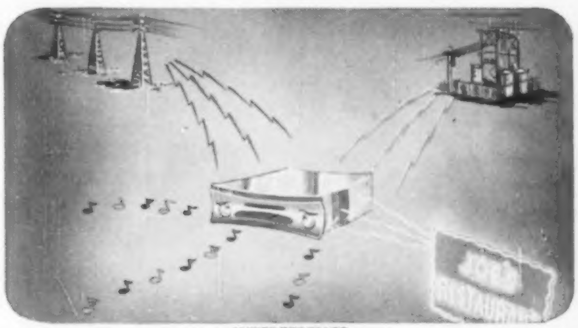
MOISTURE



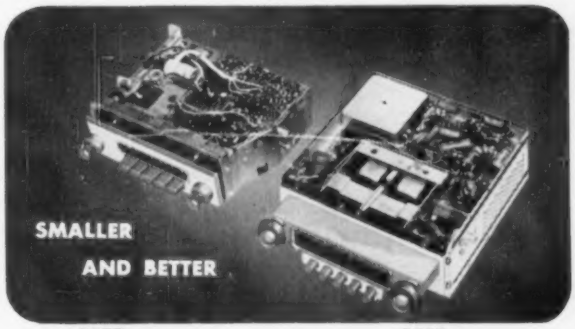
HEAT

COLD

ABUSE



INTERFERENCE



1957 1949

TAKE YOUR CAR RADIO FOR GRANTED? PERHAPS YOU SHOULD KNOW THESE FACTS

The environment of your car is downright unfriendly to its radio. Moisture, heat and cold are problems. Interference from neon lights, trolley wires and power lines must be overcome.

Yet millions of motorists today take their car radios for granted—and properly so—particularly if they are built by Bendix*, one of the largest producers of car radios. Now installed as factory equipment on millions of motor cars, they perform better than ever before, are vastly simplified, and appreciably smaller compared to car radios produced a decade ago.

Your Bendix car radio now employs a single, Bendix-built transistor to replace two bulky vacuum tubes, a vibrator and power transformer—thereby eliminating those components which accounted for the largest percentage of car radio trouble. And printed circuitry eliminates loose wires and hundreds of soldered joints—all potential trouble sources.

These are but a few of the reasons why you will get greater enjoyment and performance from your Bendix radio.

Our Bendix Radio Division, Baltimore 4, Maryland, also produces radios for aircraft, railroad, and industrial uses, long-range search and surveillance radar, airborne storm-detecting radar, G. C. A. bad-weather landing systems for aircraft, missile guidance systems and air navigational equipment.

*REG. U.S. PAT. OFF.

A thousand products Bendix AVIATION CORPORATION Fisher Bldg., Detroit 2, Mich. *a million ideas*

the case of the $500-million CCC cotton transaction was that the very moment the prime rate rose, the cotton dealers were rushing to their banks for acceptances to make the CCC deadline. This, of course, suddenly increased the supply of acceptances. The bank bill dealers couldn't immediately find customers to buy all the acceptances that deluged the market. The bankers were forced to carry many of the bills temporarily until they could be sold through the overloaded dealers.

In order to attract more investors into the market, the dealers hiked the rate once, then again the following day. The higher rates lured, as buyers, some savings banks and Canadian bank agencies happy to get 4% for such prime short-term investments.

• **Their Public**—Buyers of acceptances are usually institutions seeking investments of maximum safety and liquidity (in these respects, acceptances are comparable to U.S. Treasury Bills). Most acceptances in the U.S. are bought by non-resident foreign banks and insurance companies, thoroughly familiar with acceptances as credit instruments. They regularly keep a portion of their dollar resources in 90-day bank bills. Roughly 15% of the outstanding bills are held by U.S. banks, and Federal Reserve banks now hold another 10%, mostly for foreign accounts. In early 1955, the Federal Reserve Bank of New York resumed buying small amounts of acceptances for its own account (BW–Apr.16'55,p159).

Less active as buyers of acceptances are U.S. insurance companies, savings banks, and large corporations. These investors purchase the bills to put idle cash to work, but they can sell them at any time because the market is liquid.

• **June and December**—The acceptance market generally hits a peak in the summer and fall, when cotton and other crops are exported, then drops off in winter and spring. The rates are often closely geared to the movement of specific commodities. Last April, for example, the rates climbed ⅛-point when a big batch of acceptances was created under a $100-million revolving credit granted to finance French purchases of U.S. oil (BW–Mar.9'57,p31).

A few of the acceptances outstanding are drawn to create dollar exchange for banks in foreign countries whose exports are subject to seasonal fluctuations. The banks can then provide their customers with dollars to finance imports during slack export periods. Later, the acceptances are repaid with the dollar proceeds from exports.

Although the use of acceptances to finance foreign exchange and domestic storage and shipment is growing, about 74% of the outstanding acceptances are employed for import and export

GILBERT® provides its people with a model protection plan...

Setting up a model train exhibit at the Gilbert Hall of Science, New York City

...through a **GROUP INSURANCE** program with **NEW YORK LIFE**

A. C. Gilbert is a name long known to children and parents as the manufacturer of American Flyer model trains, the famous Erector set and other educational toys. In addition, the A. C. Gilbert Company has diversified by building a full line of electronic control devices, electric motors, tools and appliances of outstanding quality.

For the people who produce these goods, the A. C. Gilbert Co. has an employee benefit program which includes a Group Insurance plan with New York Life. The group plan combines Accidental Death and Dismemberment, Weekly Indemnity and Hospital and Surgical Insurance with basic Life Insurance protection. The purpose of such a plan is to help reduce the financial distress which occurs when an insured employee dies, or becomes disabled, or when he or one of his dependents requires hospitalization.

Thousands of other leading firms in the United States and Canada have found New York Life programs low in cost and flexible in design. Ask your New York Life agent or broker, or write for information about a plan for your firm.

NEW YORK LIFE

INSURANCE COMPANY

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trading. This makes it necessary to maintain foreign banking connections, and most of the foreign acceptances are created by a few large banks in major cities, mainly New York. New York has about half a dozen dealers who regularly buy and sell acceptances.

• **History**—London merchant bankers are generally credited with developing the acceptance as an instrument of finance in the early 19th Century. In the U.S., the bankers' acceptance market dates back only to 1913, when it was created as one part of the banking reform program of which the Federal Reserve System is another. The Fed requires that each acceptance purchased by a member bank be based on a transaction such as (1) import or export of goods, (2) shipment of goods within the U.S. or between countries, (3) storage of staple items for which a quoted market exists, or used for dollar exchange.

Maturities are also limited to three months in the case of dollar exchange drafts, six months in other instances. Warehouse receipts or shipping documents must be provided as security for storage of staple items and for domestic shipment.

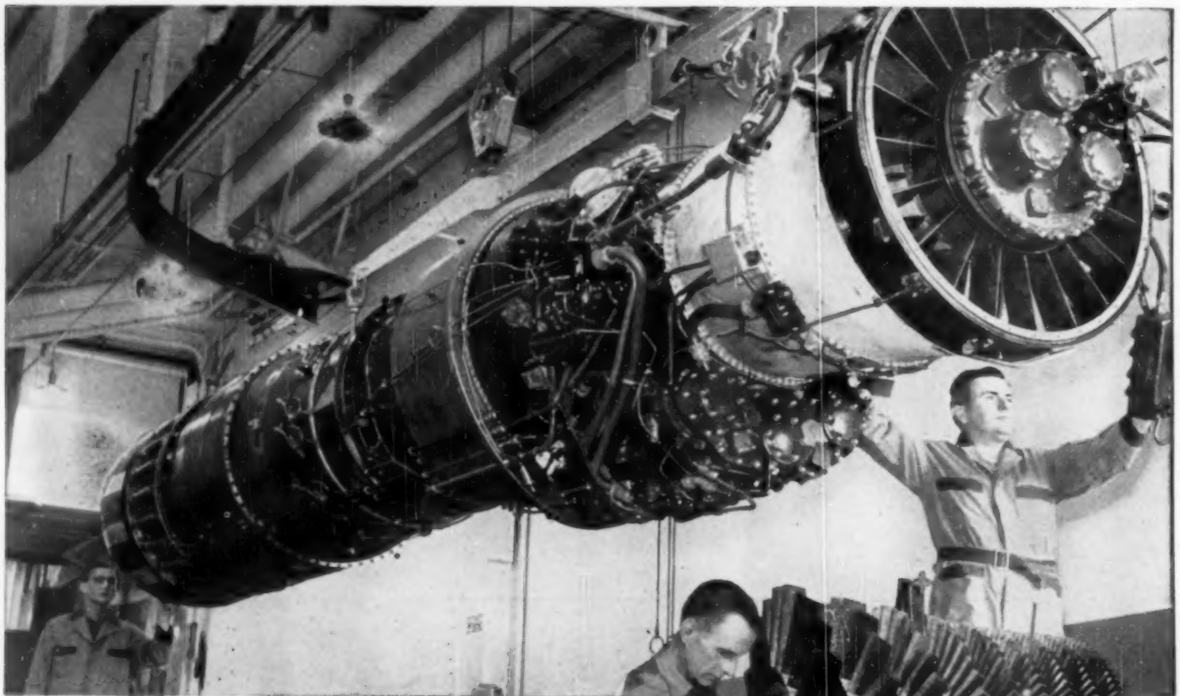
From the start, the volume of bankers' acceptances grew rapidly to a $1.1-billion level by 1920. But in the years following, the use of acceptances varied with the volume of foreign trade and general business activity. At the start of World War II, only about $194-million worth were outstanding, and the postwar upturn was slow, mainly because governments were still financing international trade.

As money tightened, however, banks began encouraging customers to use bank bill financing so that they wouldn't have to dip into their own hardpressed reserves. Together with the buildup of foreign trade since 1950, this factor has helped push the bank bills into their current popularity.

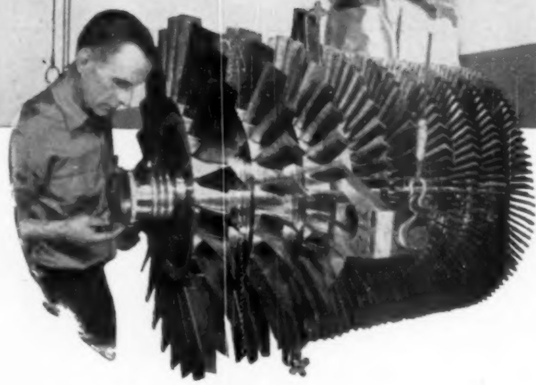
Another important reason for the recent upsurge is that for some customers a bank bill is less expensive right now than a direct loan, because banks now require borrowers to keep 20% of their loan on deposit. What's more, banks are cutting down on the number of loans they will make at the prime rate.

• **Drawbacks**—There are some disadvantages for the merchant using acceptances. It's ordinarily not possible to repay the bank bill early and save interest, as with a direct loan, because the acceptance holder will not present it for payment until it matures. In at least one other respect, the bank bill is less satisfactory for investors than a Treasury bill, which can be purchased in even denominations. Bank bills are usually drawn for odd amounts, and it takes more paper work to handle the investment. END

Progress with TITANIUM



J-57 compressor rotor, operating at several hundred degrees F., uses discs, blades and other parts of MST 6Al-4V titanium alloy.



MORE THRUST PER POUND

Teamwork of specialists applies titanium alloy to improve mightiest U.S. jet engines

The bold use of new materials is one of the reasons for the preeminence of Pratt & Whitney Aircraft's J-57, and newer J-75 jet engines.

The MST 6Al-4V titanium alloy, which Mallory-Sharon helped develop and introduced commercially, is used in quantities of hundreds of pounds to increase the thrust-per-pound ratio of these engines. This alloy meets the rugged conditions of stress and temperature in engine use.

Mallory-Sharon, one of the first materials producers for this engine, supplies the MST 6Al-4V alloy to various specialists for fabrication . . . Ladish Co. and Wyman-Gordon Co. for spacer and disc forgings . . . Thompson Products, Inc., Eaton Manufacturing Co., Steel Improvement & Forge Co. for blades and other parts . . . which are all furnished to Pratt & Whitney Aircraft.

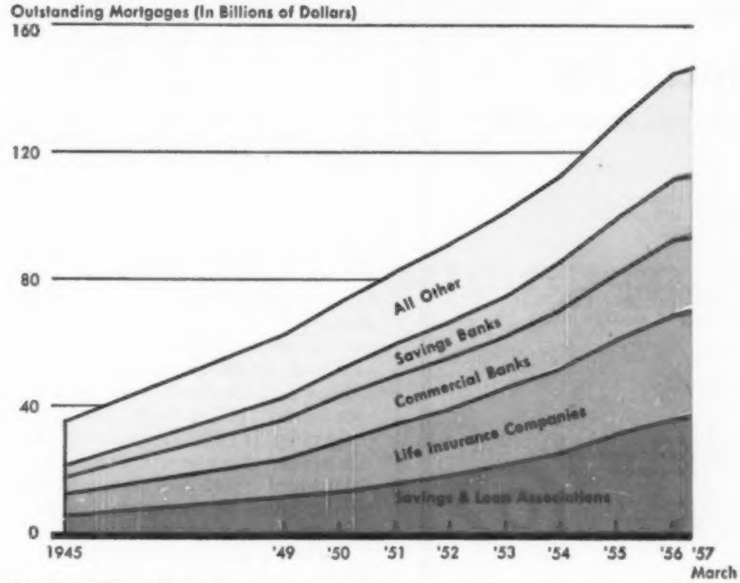
Let Mallory-Sharon, technical leader in titanium, help *you* apply this new metal. It has the strength and lightness needed in engines and aircraft, the superior corrosion resistance demanded for chemical processing equipment. Write for information.

MALLORY Ti SHARON

MALLORY-SHARON TITANIUM CORPORATION • NILES, OHIO

Producers of titanium and titanium alloy sheet, strip, plate, rod, bar, billets

How Mortgage Borrowing has Zoomed . . . and Who Has Been Doing the Lending



Data: Federal Reserve Board.

Will Pension Funds Jump In?

They have always shied away from mortgages—but now a new plan in New York gets around some legal hurdles that have kept them out.

Ever since World War II, home buyers have been creating heavy demands on the nation's investible money supply, to finance the 12-million new homes built or started since the war's end.

The rising lines on the chart show the inexorable growth in such borrowings. Today, the traditional repositories of the nation's savings hold more than \$147-billion in outstanding mortgages.

So far, one of the fastest growing reservoirs of postwar savings—the pension fund—has been conspicuously absent from the mortgage market. But a new plan hatched this month in New York opens the door for pension funds to crash the party hitherto reserved for their elders.

• **Fat Purse**—It hasn't been lack of resources that has kept the pension funds out of the mortgage field.

They are now estimated to be gathering in something like one out of every five dollars of national savings. Resources of the non-trusteed corporation pension funds alone totaled \$16½-billion at the 1956 yearend, the Securities & Exchange Commission has just reported. Resources of similar funds administered by life insurance companies are put at \$12½-billion.

If you add in the various funds run by state and local governments, the Federal Housing Administration figures that total resources of all the nation's numerous varieties of pension funds come to a staggering \$40-billion.

• **Reluctant**—It's true that moneys paid into the insurance company trusteed plans are commingled with the companies' other investible funds, and so are channeled in part, along with the rest, into mortgage investments. But specific mortgage investment of pension fund resources is negligible.

Largely because of legal restrictions, very little if any of the huge sums saved up in state and municipal pension funds finds its way into mortgages. And from SEC's pension estimates, it's evident that the non-trusteed funds have scarcely any interest in mortgages as investments. Up to the 1956 yearend, the SEC calculates, the corporate non-trusteed plans had put only some \$230-million into mortgages—less than 2% of their assets.

Why have pension funds shunned mortgages? One prime reason, of course, has been the time-consuming paperwork and the legal fine points involved in acquiring and processing mortgages.

The headaches in the case of possible delinquencies are perhaps the biggest deterrent. Then most pension fund managers have been specifically trained to handle securities, are unfamiliar with mortgages. And some pension funds, of course, operate under restrictions that rule out mortgages.

• **New Idea**—The new plan just worked out in New York gets around some of these hurdles. It makes it a lot easier for pension funds to buy mortgages, and at the same time to be freed of the work of processing them.

The technique was devised by New York City's Instlcorp, Inc., in close cooperation with the FHA. Instlcorp, Inc. is a new and specially created subsidiary of Institutional Securities Corp., an investment company organized and owned by New York State's 128 mutual savings banks. What Instlcorp has done is to create a new variety of serial note, backed by specific packages of FHA and VA mortgages. Instlcorp is currently offering to make these notes available to New York pension funds.

• **No Bandwagon**—But although the mortgage door is now open to pension fund managers, there has been no rush to buy. So far Instlcorp has closed only one deal—a \$2.2-million order for four series placed by the pension department of one of the big Wall Street banks.

The problem is this: The "high" yield of mortgages, their chief attraction, looks definitely less appealing—at the moment, at least—as yields of bonds creep higher. Today, in fact, high-grade corporates frequently yield as much or more than FHA mortgages.

This is especially true since the Administration recently revised the regulations on government-insured mortgages (BW—Aug.10'57,p32). Although the interest rate on FHA loans was raised from 5% to 5¼%, of far more significance to possible pension fund buyers was the limitation simultaneously placed on the discounts bankers can negotiate when originating such mortgages. Prior to the change, for example, many FHA-guaranteed mortgages made at the 5% rate were offered to bankers at discounts of as much as 5% or 6%, and thus, in effect at yields above those now accruing at the new 5¼% rate.

As an Instlcorp officer explains, "Sure, you can offer a pension fund manager an FHA mortgage out in Texas some place, netting maybe 4.90% or 5%. But why should he be interested, when he now can buy at a bit under par GMAC 5¼% 20-year debentures—which are non-callable for 10 years—and just sit back and clip coupons."

• **But a Future**—Nevertheless Instlcorp is confident that sooner or later, mortgage yields will resume their normal spread over high-grade bond yields. When this happens, the company is convinced its plan, and possibly variations of it under the sponsorship of

others, will have widespread appeal.

Although Instlcorp is sticking to government-backed mortgages, it says the same techniques could be used to handle conventional mortages.

• **Legal Twist**—The unveiling of Instlcorp's collateral trust note represents a triumph over two legal obstacles that have heretofore prevented pension funds from investing in mortgages on an indirect basis. These were an FHA rule against the sale of "partial participations" in FHA-backed and VA mortgages, and a similar prohibition in New York and other state laws prescribing legal investments for pension funds.

Instlcorp claims its notes are set up in such a way that they do not constitute partial participations—that is, the division of a mortgage among two or more owners. The notes have only one holder of record—Instlcorp.

Each deal involves issuance of a serial note—series "E," it might be—and the transaction is unrelated to previous or subsequent issues of other serial notes. Each specific note issue is backed solely by the group of mortgages bought in response to its issuance.

For their services, Instlcorp and Institutional Securities divide a fee of ½ of 1%. If they buy a mortgage for 97½% of face value, for example, the pension fund pays 98% for the equivalent in Instlcorp's notes.

Pension funds buy the notes on a yield basis, just as they do corporate or municipal bonds. Instlcorp quotes the yield after deducting a ¼ of 1% yearly management fee, in addition to the initial ½ of 1% markup.

Instlcorp is currently debating whether to limit its offerings to pension funds in New York State at this time, or to make them available to funds in other states as well.

FINANCE BRIEFS

Almost $80-billion of the government's debt will fall due in the next year. A year ago, the government had to face the prospects of refunding $72-billion in the ensuing 12 months.

•

The Canadian dollar has reached a record high in terms of U. S. dollars. The premium last week jumped to 5.7¢, reportedly because of European investments following nervousness over the devaluation of the French franc, creating a shortage of Canadian dollars in the U. S.

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The plummeting price of copper dropped Anaconda's six-month earnings by 55% to $27.7-million. Largely due to last May's 1.7-million-share stock financing, per share earnings dropped even faster; they were off 62%, to $2.66.

MARKETING

New System for Selling Cars?

● American Motors Corp. is signing up GM, Chrysler, and Ford dealers to sell its low-price models.

● And the Big Three are not going out of their way to prevent this kind of dual dealerships.

● Dealers selling medium-priced cars find the new arrangement attractive. They think it suits today's auto market.

The postwar automobile franchise system, shaken in recent years by Congressional investigations, dealer rebellions, cutthroat pricing, and numerous other shocks, is undergoing another very quiet change. What emerges may be an essentially new distribution pattern for the future that nevertheless is slightly reminiscent of earlier car marketing days.

American Motors Corp. is signing up General Motors, Chrysler, and Ford dealers to handle its Rambler and Metropolitan small cars in addition to the Big Three models. More important, GM, Chrysler, and Ford are tacitly consenting to the dualing of their cars with the low-price AMC lines.

• **The Reasons**—There are several good reasons why this system of multi-franchise dealerships can be expected to grow:

• With Ford's completely new Edsel going on sale within two weeks (at a time when the industry is struggling hard to maintain a 6-million car market), manufacturers realize they must hold on to good dealers—even if it means letting them handle other makes.

• Foreign car imports—which amounted to a record 115,000 in the first six months of this year—are already giving some dealers the advantage of another line for their showrooms.

• A more price-conscious public (BW—Jul.27'57,p53) makes it more important for dealers to be able to offer a broad price range in their merchandise.

• **Extent**—None of the "Big Three" manufacturers is divulging the number of dealers signing up with AMC. But AMC says dual dealerships account for about 5% of its total, which means there are about 120. The dealers for the most part are in small market areas. But three metropolitan areas figure in the program—Louisville, Wichita, and Northern New Jersey. Official AMC policy is against dualing with competitors in big cities—the three metropolitan areas involved so far have been "special cases."

Reason for this policy is to avoid friction with big city AMC dealers and with the big auto manufacturers. The Big Three companies have been judging each application for dualing with AMC on its merits. While a big company might have no objection to one of its dealers in a small town taking on the AMC products to broaden his line, it might have strong objections to such an arrangement in the case of one of its dealers in, say, New York City where it has a score of dealers and a keen competitive situation.

I. What's Ahead

AMC's program is by no means the first time that Big Three dealers have taken on additional franchises for cars of the smaller producers—that pattern was prevalent for a time in the depression-ridden Thirties. But in view of the present dealer problems in selling new cars, AMC's maneuver leaves enormous room for speculation.

• **"Supermarket Trend"**—You have to consider three main currents in retailing autos to see where the competitive dualing might be leading. One is the stubborn trend toward some type of "automobile supermarket" where cars of many manufacturers are displayed under one roof. This waxed strong back in 1955 during the days of high freight charges and "bootlegging"—the selling of new cars by franchised dealers to unfranchised dealers for retailing.

As manufacturers keyed production closer to dealer orders, and lowered freight charges to points distant from Detroit, the unfranchised dealers lost their price advantage in selling new cars and had a harder time finding over-stocked franchised dealers willing to sell cars for a few dollars above invoiced cost. In theory, those two developments should have destroyed the auto supermarket. They did not. Unfranchised dealers in all sections of the country still buy new cars from franchised dealers and resell them at retail. In some cases the supermarket's price is higher than franchised dealer's—but an auto dealer can play tricks with the figures in a car price and customers seldom realize what they are paying. The big lure of the supermarkets for a customer, apparently, is the opportunity for a simple comparison of several competitive models with a swivel of the eyes.

• **Importance of Price**—The second main current in present auto retailing is, of course, price—specifically for the so-called "medium-price" cars. With the across-the-board price increases of all new cars in the past three years, a true "low-priced" car of American manufacture has vanished. Leaving aside the economist's adjustments of the dollar, the customer who a few years back bought a Buick, Olds, Chrysler, or Mercury now finds that the same amount of money is needed to buy a Chevrolet, Plymouth, or Ford. And that situation is reflected this year in the disappointing sales performance of Buick (218,000 in the first half of '57, against 294,000 in '56), Olds (199,000 vs. 238,000), Mercury, and to some extent Pontiac, De Soto, and Chrysler. When a dealer has nothing under $3,200 to sell, he has a hard time scraping up customers.

• **Foreign Imports**—A third factor of importance in today's auto market is the growth of foreign car sales in this country. Once again, price is a big element. Small foreign cars in some cases are cheaper than the cheapest new U. S. model; but their big appeal is low operating cost. This is something AMC has been drumming away at with its Metropolitan (made in England) and its Rambler for some years. AMC's Pres. George Romney seemed to be a voice crying in the wilderness for years. Then Ford, with its drive to broaden its English Ford sales, and GM with its decision to import the British-made Vauxhall Victor and German Opel Rekord, started echoing that theme.

Handling AMC's line helps the hard-pressed medium-price auto dealer as much as his fat bankroll and sales knowhow helps AMC. Not all Buick dealers will be franchised to sell the Rekord, and not all Pontiac dealers will handle the Victor (GM plans to import only 1,000 of each a month). And Olds dealers have not yet been offered any GM foreign car to sell. So, by taking on AMC products, a

medium-price dealer gets a car (the Rambler) of small dimensions but six-passenger interior selling for less than the price of a Chevrolet, Ford, or Plymouth, and also a foreign-made, small "personal" car (the Metropolitan). And for 1958, AMC will offer a little 100-in. wheel base Rambler.

• **Olds' Situation**—Oldsmobile dealers in particular have been most active in soliciting AMC franchises. Not only are they not being offered one of the GM foreign cars, but on top of that, they are more worried about competition from Ford's Edsel than other medium-priced car dealers. The Edsel line starts below Olds' price range, then matches it. That's probably why the Olds is not looking unkindly at its dealers taking on other franchises to broaden their line of cars. Officially, Olds says that it has no legal basis on which to object to this procedure, and it only tells its dealers (as it has a contractual right to do) that they must continue to maintain adequate sales and service facilities for their Olds models.

II. Case in Point

How a link with AMC can work out for an Olds dealer is shown in Louisville where Wood Hannah, Sr., has acquired franchises for retailing the Rambler, the Metropolitan, and a German make, the Lloyd.

Hannah says he will continue to sell Oldsmobiles as a franchised dealer and that the General Motors Acceptance Corp. will finance all of the cars he sells, Ramblers included.

• **Limited Market**—Hannah says two factors entered into his decision to take on noncompeting lines. For one thing, the Oldsmobile is a medium-priced car that competes in a market limited to about 25% of the car buyers. The vast market for low-priced cars is not reached by the medium-price car.

Secondly, he has a $1-million plant covering 3½ acres in the central part of the Louisville business district. The business of servicing and selling Oldsmobiles is insufficient to permit full utilization of this plant.

By adding non-competing, low-priced lines to his business, Hannah will be able to appeal to about 95% of the total new car market. His German Lloyd will sell for $1,395; the English Metropolitan will sell for $1,800; the Rambler will cover the price range of $1,900 to $2,800; and the Oldsmobile will compete in the $3,200 to $5,500 price range.

• **Better Utilization**—This will mean greater sales, greater plant utilization, and greater opportunities for attracting and keeping car salesmen, Hannah says.

Hannah says that as long as he continues to make a favorable sales showing and as long as he continues to give Oldsmobile customers adequate service, he expects to hold on to his franchise from General Motors.

Hannah's General Motors franchise was awarded on Jan. 1, 1956. It is a five-year franchise. Hannah had previously held a Dodge-Plymouth franchise here for 12 years.

"We are now franchised dealers for a range of products of the highest quality," Hannah points out, "which we expect to sell in great volume at the lowest possible prices and by doing so to earn a more satisfactory return on our investment. We think this could well be a new trend with the large auto dealers throughout the country. "We have concluded that it is the answer."

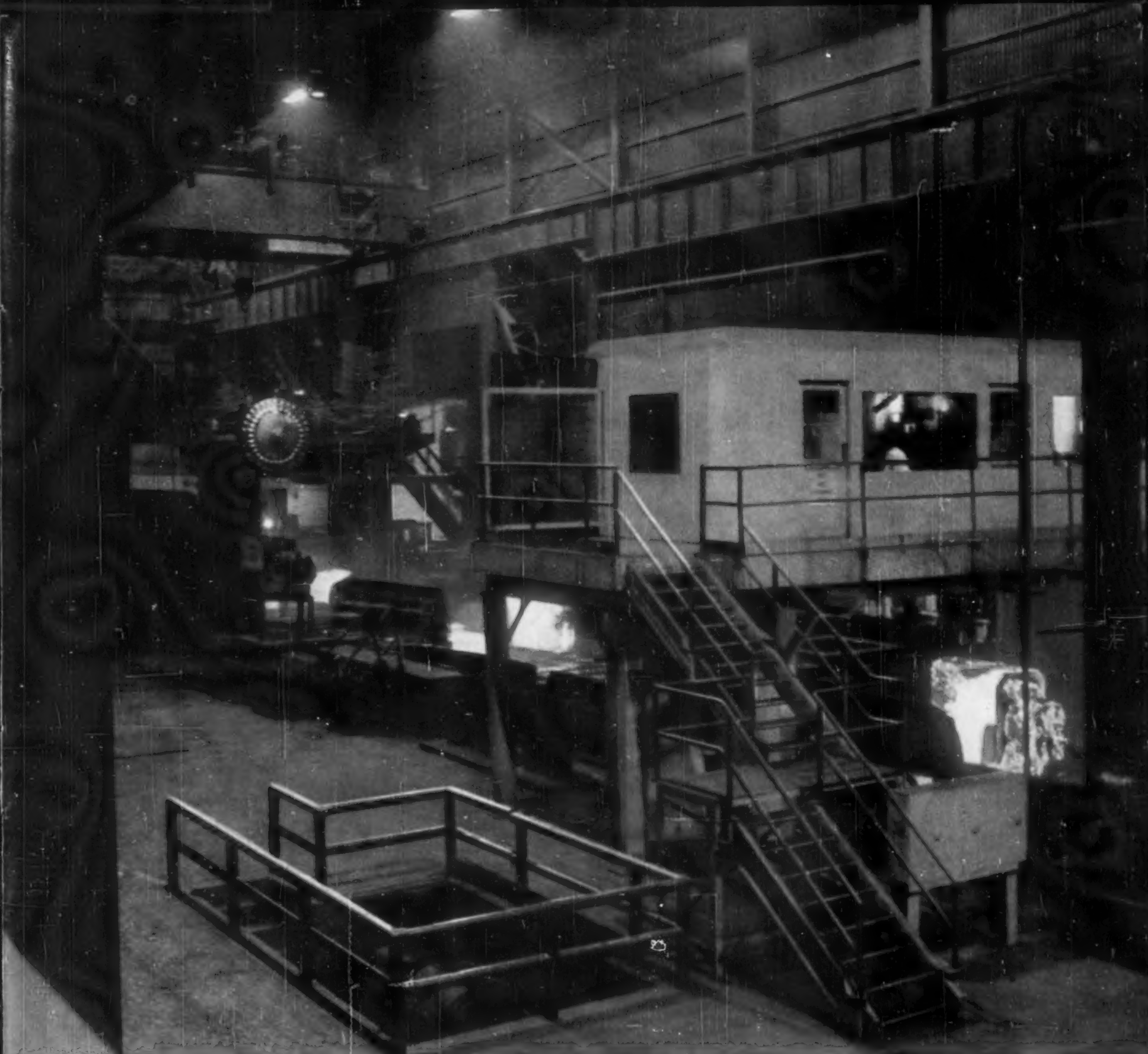
III. Echoes of Past

The need for high volume sales shaped the present auto distribution system. Before the Twenties, cars were sold on consignment, or through agents (today, legally, franchised dealers are not agents of the manufacturers.)

But when the auto industry turned to mass production, the high overhead and start-up costs could be overcome only by assurance of high volume sales. To get such assurance, the manufacturers appointed exclusive dealers. For years, the franchise agreements were drawn up to provide for exclusive representation (exclusivity clauses were dropped in the Forties). The exclusive nature of the contracts was breached only when the manufacturer wanted it to be.

Since World War II, the factories have been more concerned with getting what they feel is proper "penetration" of the total market. And they have felt that a dealer handling several makes could not concentrate enough effort on any particular make to attain its proper market penetration. Intra-company dualing has existed, however, with GM dealers selling Cadillacs and Oldsmobiles, for example.

• **New Trend**—What is going on in Louisville and other places is, however, a new kind of dualing. The important thing about Hannah's operation is that he has a good record selling Olds. In addition, his setup fits today's new auto market—a market scrambled among buyers of medium-priced and low-priced cars, foreign cars, and a growing number of customers needing more than one car. In such a situation, there is grave doubt that, except in unusual circumstances or localities, any dealer can long survive selling only one product. The American consumers' penchant for shopping and wide variety of tastes seem to argue against it. And that's why the new dual dealerships have a good chance of becoming the auto distribution system of the future. END



ROLLING STEEL INGOTS INTO SLABS AT J&L'S PITTSBURGH WORKS

PHOTO BY HARE

Up 64%—the Ten-Year Score

For American industry, 1947 was a year of decision. What lay ahead? Some saw a "plateau" economy and some foresaw a surge of growth that would leave the established goals far behind.

That was the year Jones & Laughlin, the nation's fourth largest steel producer, began its big expansion and improvement program to fill the demand for steel in the years ahead.

Now, ten years later—let's look at the pattern of growth. By the end of this year J&L will have increased by 64 per cent its capacity to produce steel. And not only can we produce *more* steel, but *new kinds* of steels and steel products *more efficiently*, for modern living and defense.

Planning for progress is typical of operations at J&L, truly a growth company in a growth industry.

J L STEEL

Jones & Laughlin
STEEL CORPORATION · PITTSBURGH

J&L . . . A GREAT NAME IN STEEL

In Marketing

• • •

TV Industry Raises Its Sights To 7-Million New Sets This Year

TV set makers are beginning to talk in optimistic terms about their fall-winter selling season with predictions of a 7-million-set year. Despite the soft appliance-TV market (BW–Jul.13'57,p45), which has seen set sales for the first seven months fall 3% below the same period last year, **set manufacturers are pointing to a number of encouraging signs.**

Estimated retail set sales for July, according to Television Digest, are 425,000, compared with about 386,000 for the same month last year–making last month the best July on record since 1951, the first year figures were reported. Stepped-up July sales take on more weight in the industry view when contrasted with June sales of only 390,000, which were under June, 1956. Although July isn't a top selling period, makers hope the upturn will carry through into the heavy fall-winter season.

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Cough Sirup Eases Razor Maker Into Proprietary Drug Field

Gillette Co., leading maker of razors and razor blades, is getting ready to jump into the proprietary drug business. Its first product will be a cough sirup, to be tested-marketed this fall.

In discussing the move, Carl J. Gilbert, Gillette president, says his company "has been expansion-minded for years. One of our assets is to merchandise well," he adds. Gillette diversified into cosmetics field in 1948, when it acquired Toni Co., manufacturers of home permanent wave preparations. Its last big expansion came two years ago, when it set up Paper Mate Co. to acquire various firms making ball-point pens under the Paper Mate label.

• • •

General Motors' $163-Million Was Tops In Last Year's Advertising Budgets

The nation's top 100 advertisers accounted for better than 20% of the total advertising bill last year. Out of nearly $10-billion expended in 1956 (BW–Mar.30'57,p123), the leading 100 companies spent more than $2-billion. In 1955, the top 100 invested $1.8-billion.

That's the salient fact from Advertising Age's second annual report on the country's top advertisers.

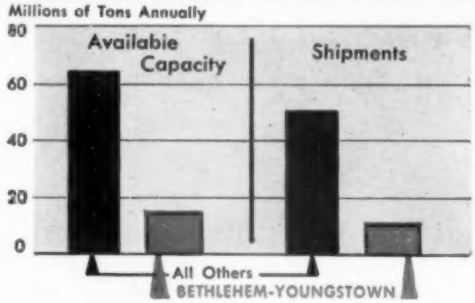
General Motors Corp. is the nation's most lavish advertising spender. GM spent some $163-million in media last year, down from $170-million the year before. GM, which led in sales as well as advertising outlay last year, was one of 13 companies out of the top 100 to cut back on its advertising budget, with 83 companies increasing expenditures and three holding the line.

Other companies ran far behind GM. Procter & Gamble Co., in second place, spent $93-million, up from $83-million in 1955.

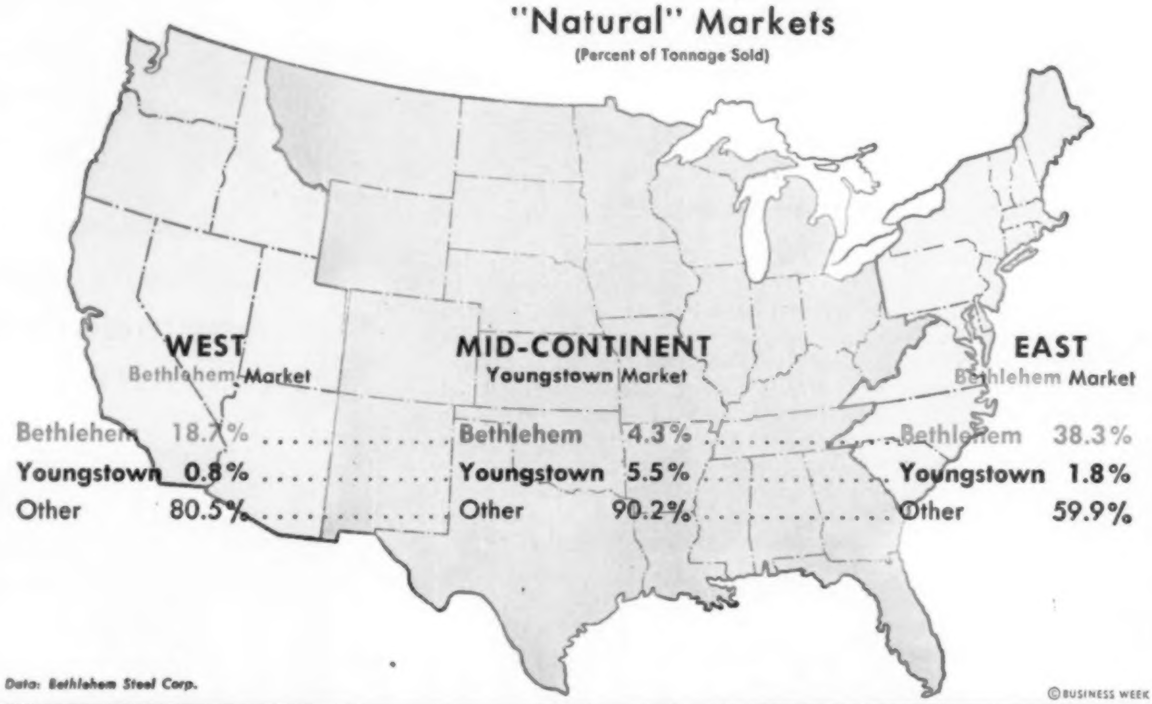
The Geography and Economics of a BETHLEHEM and

BETHLEHEM Argues . . .

1 . . . . that the merged company would still face formidable competition (right) in the products they both make, measured by plant capacity or by shipments▸



2. . . . that each of the companies already sells chiefly in its own "natural markets" (below). Neither sells a significant percentage in the other's market, compared with tonnage of the rest of the industry.



Steel's Biggest Merger Nears a

● Bethlehem and Youngstown say they don't compete significantly with each other. Together, they say, they would offer more competition for mighty U. S. Steel.

● Justice Dept. says the two companies do compete and in important respects would together top U. S. Steel.

● The court rulings may start coming in a few months.

These maps and charts summarize the factual issues that will decide whether or not the proposed merger of Bethlehem Steel Corp. and Youngstown Sheet & Tube Co. violates the Clayton Antitrust Act.

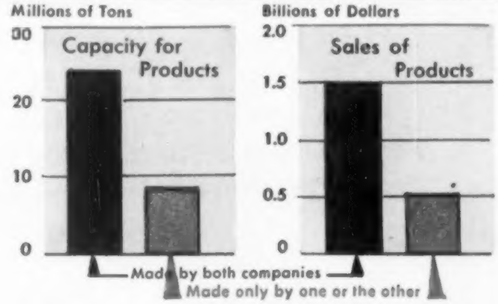
• The two steel companies, with Bethlehem as spokesman, say the merger would be legal.

• The Justice Dept., using a different approach to the same data, says it would be illegal.

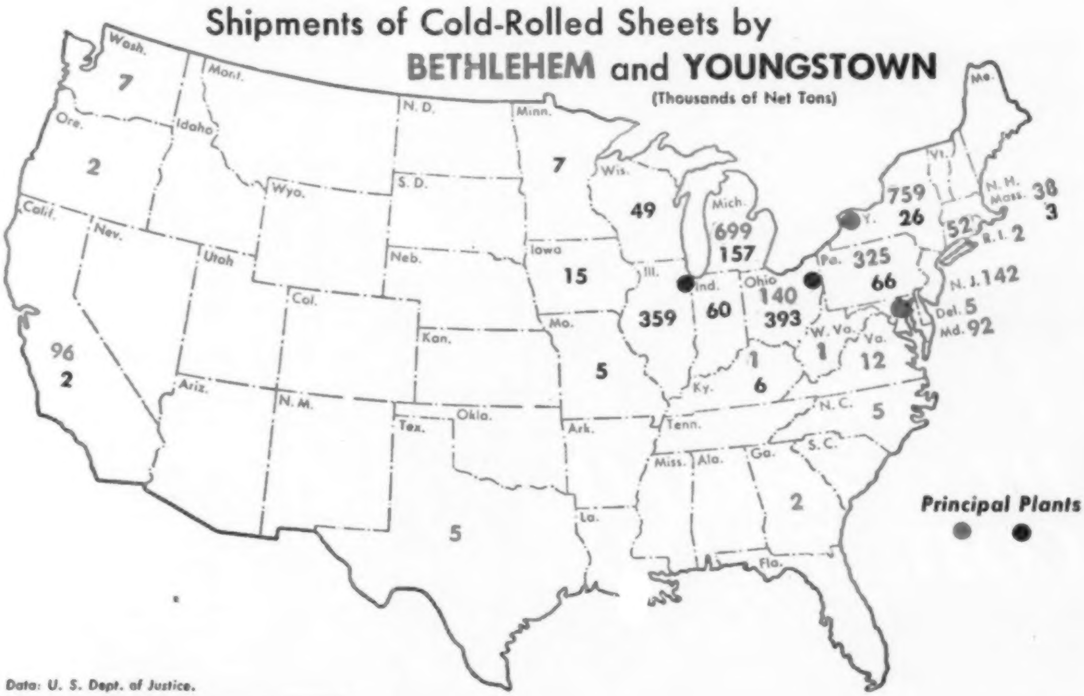
YOUNGSTOWN Merger

ANTITRUSTERS Argue . . .

1. . . . that the merger would unite major competitors, that 75% of their combined capacity and shipments (right) is in products that both already produce▸

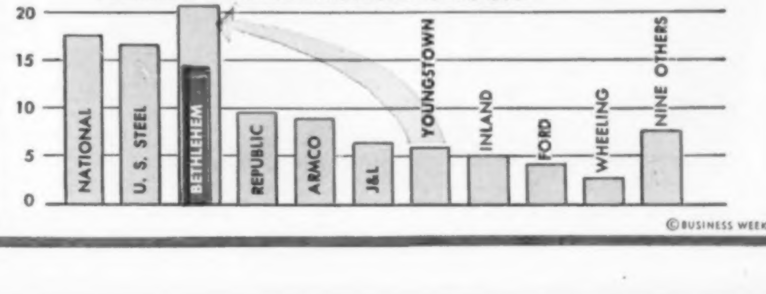


2. . . . that the national market doesn't divide in three zones as Bethlehem contends, that the companies actually compete today in selling the same products in the same markets (below).



Data: U. S. Dept. of Justice.

3. . . . and, finally, that the merger would create a new market leader in so important a product as, for example, cold-rolled sheets.



Showdown

The courts—first, Federal Judge Edward Weinfeld in New York District Court and, ultimately, a majority of the U.S. Supreme Court—will determine whether a new steel giant is to be born or whether the government can successfully block the merger route to expansion in the steel industry—and other industries, too.

• **Pace-Setter**—The government says the combination of Bethlehem and Youngstown would be the most sig-

nificant merger of the past 25 years.

There probably has never been a merger involving such total assets—more than $2.7-billion. The antitrusters say their future success in enforcing the Clayton Act in merger cases is tied to the outcome of this case.

Bethlehem's arguments in support of the merger were made in documents submitted to the Justice Dept. before the antitrust suit was filed. In reply, the government spelled out its claim of illegality in a document submitted a few weeks ago in the District Court in New York. This document—a unique economic brief that bundles together the government's whole case—was submitted to support the Justice Dept.'s move for a quick ruling by Judge Weinfeld.

• **Trial Needed?**—In essence, the government believes its analysis of the facts submitted by the two companies is so compelling that the legality of the merger can be decided as a matter of law, without any trial. The steel companies believe a full trial is necessary.

Under the present schedule, Judge Weinfeld will hear oral argument early in November on the government's motion for a quick ruling without trial. It is possible he will rule on the motion by the end of the year. If he grants the motion to dispense with a trial, the companies will appeal to the Supreme Court. If the government loses in either court, a trial will still be held—though experts believe a denial would weaken the government's case.

I. Pros and Cons

The legal briefs by both sides—detailing the arguments—will be filed with Judge Weinfeld sometime in October. But the battle lines already are marked.

The steel companies say the merger does not violate the law because:

• Bethlehem and Youngstown complement, rather than compete with, each other. Each makes some products the other does not. Each sells most of its products in its own natural markets—in different geographic areas of the country (map, page 110).

• The new company, though sizable, would still have plenty of competition from the rest of industry. Competitors are now, and would continue to be, predominant everywhere in all the products which both Bethlehem and Youngstown manufacture (chart, page 110).

• The merger would actually increase competition, by creating a nationwide competitor for the industry giant—U. S. Steel Corp.—and by creating more effective competition against at least six other major steel producers in the large steel-consuming market represented by the states of Ohio, Illinois, Indiana, Michigan, and Wisconsin.

The Justice Dept. says the merger

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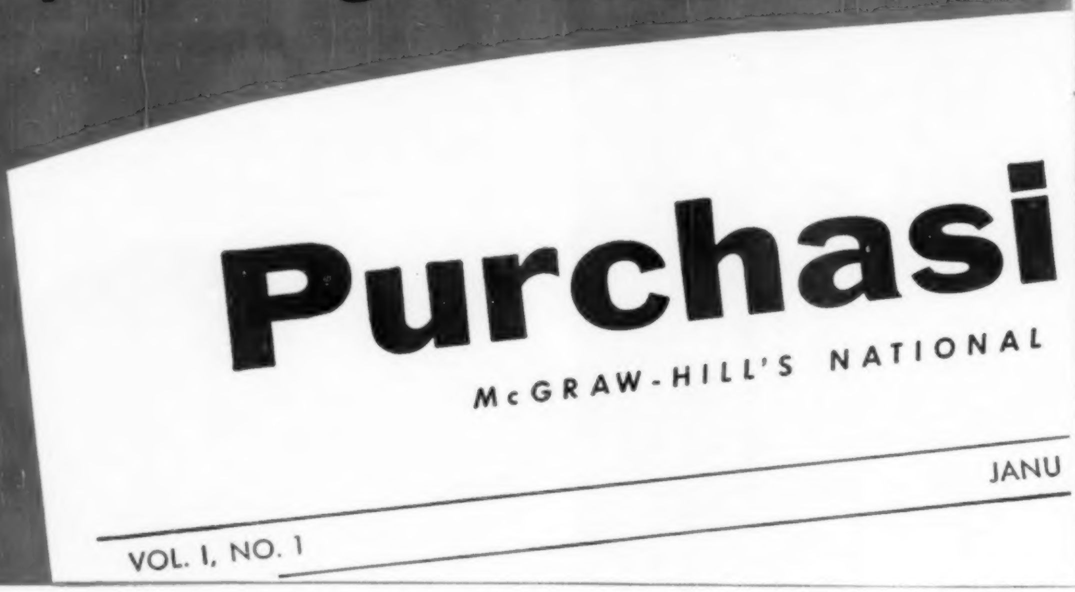

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PURCHASING WEEK is the fifth wholly-new McGraw-Hill business publication started since World War II—and, like the others, it will be launched *only* because it fills a genuine gap in

would violate the antitrust law because:

• The bulk of the capacity and shipments of the companies is in products both of them produce and sell. And their share of these products is significant in the industry's totals (top chart, page 111).

• The natural market concept does not hold, because the companies do compete geographically and penetrate into each other's "natural markets," selling the same products in the same states (map, page 111) and even to some of the same customers.

• As for offering better competition for U. S. Steel, Bethlehem—ranking No. 2 in the industry on a national basis—already outranks U. S. Steel in important products (bottom chart, page 111) in important areas: for example, in steel ingots and hot- and cold-rolled sheets in the Northeast, where more than 60% of all steel products are consumed. The actual competitive impact of the merger will be on smaller steel companies, not on U. S. Steel, and could be only the beginning of a whole round of other mergers in the industry (BW—May25'57,p50).

II. Bethlehem's Approach

To analyze the effects of the merger, Bethlehem divides the country into three broad areas—East, Mid-Continent, and West (map, page 110). This three-area breakdown, says the company, represents the natural markets of the two companies: Youngstown's plants and biggest sales are in the Mid-Continent area; Bethlehem's plants and biggest sales are in the other two.

Both companies sell certain finished steel products in all three areas: sheets and strip, bar mill products, tin mill products, rod mill products, plates, and butt-weld pipe.

Bethlehem maintains that, either nationally or in any of these three areas, a combination of Bethlehem-Youngstown would not be dominant in the common finished steel products. It compares the percentage of capacity and shipments represented by Bethlehem and Youngstown with the percentage of capacity and shipments represented by the rest of the industry (chart, page 110).

• **Competitive Capacity**—Bethlehem shows that other producers of steel have enough capacity to supply all the nation's needs for the common finished steel products—without the capacity of Bethlehem and Youngstown at all.

On this basis, Bethlehem says, the acquisition of Youngstown would not lessen competition in any section of the country. It supports this conclusion with a similar analysis of shipments of common finished steel products (map, page 110).

Figures from 1953 are used for ship-

After eleven years' use, Illinois meat packer testifies to permanent efficiency of Styrofoam® insulation

Bartlow Brothers, an Illinois meat packing firm, has used 100,000 board feet of Styrofoam (a Dow plastic foam). In 1946 approximately 80,000 board feet were installed. In 1955, another 20,000 feet were specified for a new addition! They have used it in ceilings, walls and floors in several storage rooms, including the utility freezer shown above.

After eleven years' experience, Bartlow prefers Styrofoam because of its lifetime low "K" factor and its unyielding resistance to water and moisture. As for its over-all insulating efficiency, one Bartlow spokesman put it this way: ". . . we have noted that over a week end, when the doors are not being constantly opened . . . our smallest machine, a 6′ x 6′ Frick, will keep the entire building at temperature."

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B	•			•			•	
C	•		•					

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ments. In that year, for example, Bethlehem shipped 4.3% of the total tonnage of these products shipped by all producers to destinations in the Mid-Continent area; Youngstown accounted for 5.5%. Thus, this area is, according to Bethlehem's analysis, Youngstown's natural market.

• **How Significant**—Bethlehem then puts these figures into the over-all market picture.

The bulk (89%) of the tonnage of Bethlehem's shipments into the Mid-Continent area were to Michigan, Ohio, and Texas. Compared with shipments into these states by all other producers, the company argues, neither Bethlehem nor Youngstown is a "major factor." Business done by other producers is "predominant" in each state.

For example, in Michigan, Bethlehem had 10.7% of total shipments and Youngstown 2.3%, leaving all other producers a commanding 87% share. Similar proportions of shipments apply to Ohio and Texas, too. And in the other 24 states in the Mid-Continent area, Bethlehem shows that other producers shipped more than 93% of the tonnage delivered.

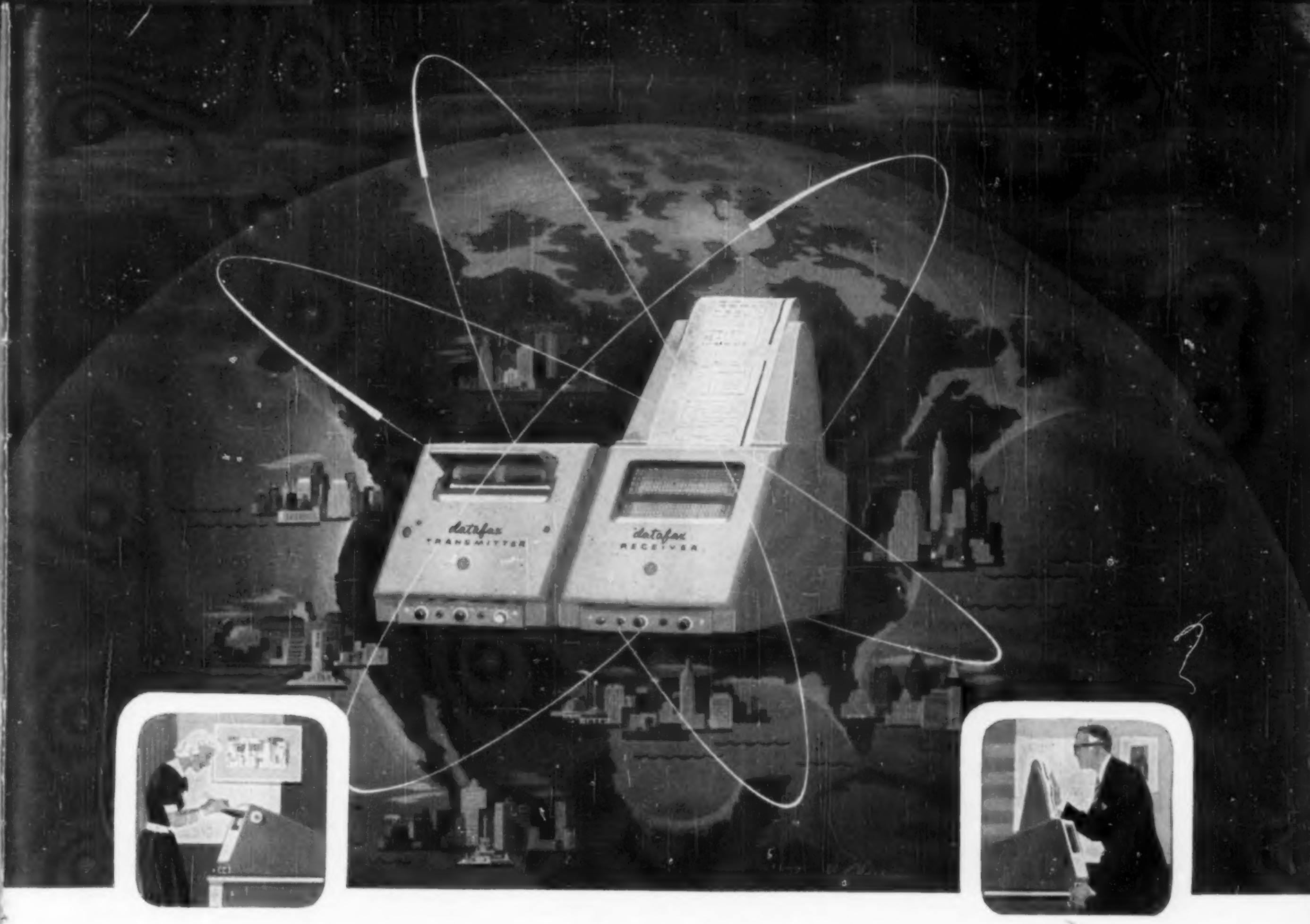
In both the Eastern and Western areas—Bethlehem's natural markets—Bethlehem maintains that Youngstown is a "negligible factor" in the sale of common finished steel products. In 1953, Youngstown accounted for only 1.8% of tonnage shipped to the Eastern area and only 0.8% to the Western area. Of the two, Youngstown's shipments to the East are more important. The bulk (84%) of these shipments was to Pennsylvania and New York. Yet those shipments, argues Bethlehem, represent respectively only 2.4% and 1.8% of the total tonnage of those products shipped by all producers into these two states.

It is on this kind of economic analysis that Bethlehem relies to win the court battle over legality of the merger. Its main effort, undoubtedly, is to convince the courts that the merger would increase competition—not lessen it.

III. The Government's Case

In contrast, the government's whole case against the merger is based on the argument that the direct competition between Bethlehem and Youngstown is so extensive that any merger combining them would substantially lessen competition, thus violating the law.

The economic brief backing up this argument, prepared by Justice Dept. antitrust economist Harrison F. Houghton, is already a collector's item in the specialized field of antitrust law. The two companies alone bought up 300 copies of the 100-page document. Inside the government, it is being held up to attorneys and economists as a model for the court presentation of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future Federal Trade Commission and Justice Dept. anti-merger cases.

• **View of Antitrusters**—The government's tactic in analyzing the merger is to study shipments of products on a state-by-state basis. This way, Bethlehem and Youngstown together are shown to have more than 20% of industry capacity for hot- and cold-rolled sheets, more than 25% for reinforcing bars, 30% for butt-weld pipe.

The same state-by-state approach is used to show two major market areas in which the government says the merger would reduce competition—the 15 "Northeastern states" and the nine-state "Chicago area." Thus, the government rejects what it calls the "arbitrary" three-area breakdown used by Bethlehem to defend the merger.

The government argues that:

• By placing the boundary between the Eastern and Mid-Continent areas at the Ohio-Pennsylvania border, Bethlehem has cut the major producing region right down the middle. In reality, says the government, Bethlehem's plants in western New York, Pennsylvania, and Maryland have easy access to the same markets served by Youngstown's Ohio and Indiana plants. In addition, the government shows that both companies have sales offices in most if not all the principal steel-consuming areas of the country.

• Bethlehem's three-area breakdown does not conform to the American Iron & Steel Institute's zoning of the country, which shows six producing areas. On the other hand, the government's version of the two main regional markets—the Northeastern states and the Chicago district—pretty much conforms geographically to three of the six districts laid out by AISI.

• The two companies make extensive shipments of the same products into the same state—often to the same customers.

• **Markets Overlap**—It is on this last argument that the government puts most stress.

With elaborate charts and statistics, based on the companies' own reports, the government shows in detail how each company penetrates into the other's preserve—or what Bethlehem calls "natural markets."

At the same time, the government also shows what the merger would mean in terms of increasing Bethlehem's rank—nationally and in regional markets.

Take cold-rolled sheets, for example. The map on page 111 shows market overlap on the basis of shipments in 1955. Nationally, the government says, the merger would boost Bethlehem's rank in capacity for cold-rolled sheet from third place to first place (chart, page 111). In both the key regional markets—Northeastern states alone or Northeastern states-Chicago district

combined—Bethlehem would move from second to first.

The government also shows cold-rolled sheet shipments from 1953 to 1955 to leading customers of both Bethlehem and Youngstown. In Michigan, both sold to General Motors, Chrysler, Ford, and the Budd Co. These four companies accounted for 75% of Bethlehem's total 700-million net tons of cold-rolled sheets shipped into Michigan in 1955, more than 50% of Youngstown's total 157-million tons. In Ohio—Youngstown's "home" territory—both steel producers shipped cold-rolled sheet to General Motors, Chrysler, and Ford. In Pennsylvania, Bethlehem and Youngstown competed in supplying General Motors and General Electric.

- **Market Effect**—A glance at another feature of the government's argument shows how the different approaches used by the two sides make substantial differences in the picture of the merger's market effect.

The government uses a state-by-state breakdown of industry shipments of sheets and strips—both hot-rolled and cold-rolled—in 1955. Industry shipments totaled more than 31-million net tons, by far the largest for any steel product group. Of the national total, Bethlehem shipped 14.5% and Youngstown, 5.6%. This is enough, the government argues, to show that a merger would substantially lessen competition.

The government emphasizes the shipments made to four states—Pennsylvania, Michigan, Ohio, and New York—which account for over half of the total consumption of sheets and strip in the U.S. Bethlehem and Youngstown divided a substantial share of the shipments into these states, says the government—making the clear implication that it considers this a market area important enough to measure the legality of the merger.

- **Competition**—The government relies on its detailed market analysis to beat down Bethlehem's contention that the proposed steel merger would actually increase competition by creating stronger national and regional competition against the industry's biggest company, U.S. Steel. The government says that, since Bethlehem already is second in the industry, the proposed merger would have the most competitive effect on the smaller companies.

Thus, the government evidence cites the fact that in steel ingot capacity, for example, Bethlehem is slightly bigger than U.S. Steel in the Northeastern states, where two-thirds of all steel products are consumed. In hot-rolled sheets, too, Bethlehem already has more capacity in the Northeast than U.S. Steel, which ranks third. In the same area, Bethlehem already ranks second in cold-rolled sheet capacity, while U.S. Steel ranks sixth. END

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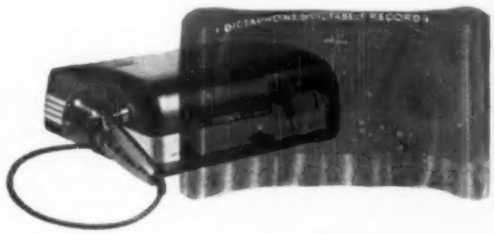

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In Washington

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Civilian Atomic Industry Gets Federal Insurance—Up to $500-Million

The civilian atomic industry achieved one of its goals this week: a federal insurance program that will pay up to $500-million in damage claims arising from any reactor accidents.

Sen. Clinton P. Anderson (D-N.M.), who steered the House-passed bill through the Senate without opposition, says that foremost experts on the subject are confident that the government will never have to pay a claim under the legislation. But **the Atomic Energy Commission and private companies now building or planning reactors say comprehensive insurance is essential before they can begin to operate.**

The bill is expected to get Presidential signature without quibble. It requires reactor operators—in order to be eligible for government insurance—to first purchase the maximum coverage (about $60-million per accident) that private carriers are willing to write.

A major point in both private and government programs will afford financial protection against damage claims to contractors and subcontractors on reactor projects, as well as to the owner-operator. Thus, a supplier or installer whose contribution might ultimately be held to have caused an accident will be shielded against damage settlements.

Available private insurance will be expensive. Anderson says, for example, a $50-million policy on Consolidated Edison's 630,000-kw. project in New York will carry a $250,000 annual premium. To participate in federal indemnification—and run its coverage to $500-million—Consolidated Edison will need pay only another $18,900, in administrative cost fees, to AEC.

There were other developments this week in the nation's atomic energy program:

• Congress rushed to act on a Senate-House compromise atomic power plant authorization bill. Democrats originally pushed for a $58-million program of federal reactor construction. This has been cut to $21-million in the bill.

• Legislation authorizing U.S. participation in the new International Atomic Energy Agency will have the so-called Bricker amendment (BW—Aug.17'57,p130) in it. Opponents of the provision, which requires Congressional approval for providing enriched uranium abroad, beyond already pledged amounts, blamed their defeat on weak State Dept. support.

• • •

Overhaul of Banking Laws Bogs Down In Controversy Over Bank Mergers

An omnibus bill to overhaul and modernize U.S. banking laws was consigned to a shelf in the House Banking Committee this week. Chmn. Brent Spence (D-Ky.) put off further consideration of the measure until early next year.

Controversy over federal regulation of bank mergers is the principal reason for the failure of the bill to get through the House committee this session after it had passed in the Senate.

Main point of dispute: The measure's bestowal of merger regulation on federal banking agencies—the comptroller, if the resultant institution is a national bank; the Federal Reserve System, when a merger produces a state bank that is a member of the system; and the Federal Deposit Insurance Corp., if the resultant bank is a state institution insured by FDIC but not a member of the Federal Reserve System.

Capitol Hill sources think the House committee will amend the bill next year to force banking agencies to consult on all bank merger proposals with the Justice Dept. Antitrust Div. There appears to be no disposition to make the Antitrust Div.'s advice binding, but one source says, "It's not likely that any of the agencies would approve a merger that Antitrust says is bad."

• • •

CAB Tells Airlines to Set Up More "Realistic" Timetables

The Civil Aeronautics Board responded this week to what it calls "numerous complaints" about airlines' failure to complete their flights within scheduled time.

CAB ordered air carriers to set more realistic schedules to elapsed flight times between points, then to complete at least 75% of their flights within 15 min. of that time span.

The board's immediate concern is not whether a Washington-to-New York flight leaves, for example, at noon as scheduled. Rather, CAB is concerned whether the flight, once away from its gate at Washington's National Airport, arrives at its gate position at LaGuardia Airport in New York 55 min. later—as promised by current schedules. CAB says its own surveys show that carriers have been completing less than 75% of their flights within elapsed time schedules.

• • •

No Tariff Relief This Year For Domestic Lead and Zinc Producers

Tariff relief for domestic lead and zinc producers ran up against a procedural deadend in Congress this week. The Senate Finance Committee voted a straight 3¢-per-lb. increased duty rate, but had to back down in the face of a threatened veto by Pres. Eisenhower. **The Administration insisted on a more liberal sliding scale duty previously sent to Congress.**

The Senate committee then tacked the sliding scale measure on a minor House-passed tariff bill, but House opponents of any new relief law are not going along. This leaves the issue up in the air until next year, when over-all trade policy comes up for review.

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Bright yellow bands provide marked contrast with water and serve as warning to deckhands

Pittsburgh COLOR DYNAMICS scores another significant industrial "first"! A. L. Mechling Barge Lines, Inc., of Joliet, Ill., operators of 15 diesel towboats and 125 barges on 4,000 miles of inland waterways, have used this system of painting on two additions to their fleet, "Lynn B." and "Craig M." These are 2560-hp 148-ft. Diesel workboats.

● **In their functional color-styling,** COLOR DYNAMICS principles were used by Mechling Vice President John Oehler and Safety Director Ralph Guffey, working with Dravo Corporation, builders of these boats.

● **Engine rooms of these river boats** were painted two tones of blue for their restful and cooling effect. Pilothouses were painted green to lessen eye fatigue. Pleasing colors were used in crews' lounges to provide a cheerful, homelike atmosphere. Sunny yellow was used in messrooms to make them more attractive.

● **Another important feature** of the color-styling was the use of high visibility colors in hazard areas. These colors serve to warn deck hands of danger, especially at night.

● **So favorable has been the response** of crewmen to COLOR DYNAMICS that the remainder of the Mechling fleet is being similarly painted.

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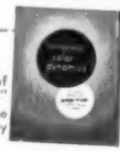

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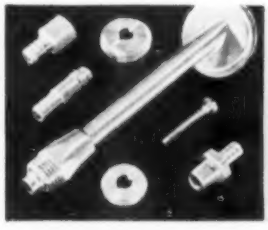

INTERNATIONAL OUTLOOK

A BUSINESS WEEK SERVICE

For all practical purposes, Syria this week became a Soviet satellite. Communist officers have taken over control of the army—and he who controls the army in Syria controls the entire administration.

The new rulers will still have to go slow. Powerful anti-Communist feeling still exists—especially among the country's businessmen, centered in Aleppo and Homs. But there's no doubt that the army leaders in Damascus pay allegiance to Soviet Marshal Zhukov, no longer to Egyptian Pres. Nasser.

The Damascus coup points clearly to the essence of Soviet policy in the Middle East. Moscow's chief target is neither economic advantage nor the wrecking of the Eisenhower Doctrine. **The Communist aim is to get a stranglehold on the pipelines and sea routes serving the area's vast oil deposits**—facilities on which the European economy will depend for the next decade or so before atomic power comes into widespread use.

The Soviet attack has been concentrated on key points in the West's communications network. Moscow armed Egypt because of the Suez Canal. Syria was a target because of four pipelines that cross it, carrying oil from Iraq and Saudi Arabia to Mediterranean terminals. Soviet arms have also gone to little Yemen, next door to Aden, the West's bunkering port and entrance to the Red Sea.

Syria offers the Russians more than just a pressure point on Western oil communications. It lies at the geographic and emotional heart of the Arab world. From it, a program of propaganda and subversion can be aimed at the West's Arab allies—Iraq, Lebanon, Saudi Arabia.

Washington is watching the Syrian situation with foreboding. But there is little direct action the U. S. can take at this time. The Communist takeover in Syria has been an internal process. As such, it avoids the Eisenhower Doctrine's provisions to defend Middle East states against foreign aggression.

However, U. S. observers speculate on several points:

• There are signs that Nasser is unhappy about the Communist takeover. That could mean a moderation of Nasser's anti-West campaign—although there are yet no signs of it.

• Syria is a volatile country. As long as there are anti-Communist elements, they may have a chance for a comeback.

• The U. S. will speed plans for a new Middle East pipeline skirting Syria. It has been held up by Iraqi and Saudi fears of antagonizing Syria.

—•—

The Syrian crisis sharpens the Administration's fears of the effects of cuts in the foreign aid appropriation (page 32). Emergency funds were cut from $300-million to $175-million, economic development funds from $500-million to $300-million. This leaves very little money to back up U. S. policy in the Middle East—particularly when measured against massive Russian aid to Egypt and Syria.

Military aid cuts may be even more damaging. Funds earmarked for modernizing allied armed forces have been slashed from $900-million to

INTERNATIONAL OUTLOOK (Continued)

BUSINESS WEEK
AUG. 24, 1957

$250-million. A big slice of this money was slated to go to Turkey, which has only outmoded World War II arms, and to the other Baghdad Pact powers, which are using still-older weapons. Deliveries by Russia of MIG fighters, submarines, and modern artillery could have serious psychological and political repercussions in neighboring countries.

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Violent convulsions in the world's international payments mechanism may be bringing on a crisis. Speculators are moving into German deutschemarks—on the idea that sooner or later Bonn must set its value higher in relation to other European Payments Union currencies (page 130).

European capitals are worried that if the flood cannot be dammed, it could lead to an international crisis. One country after another might have to cut its imports for lack of foreign credit.

In London, the drain has hit the pound heavily. But British officials say sterling will be defended, that adequate reserves are available for that purpose. The British say the primary responsibility for the trouble lies with Bonn, which refuses unilaterally to boost the mark's value.

In Bonn, the onus is being put on the British. Before he revalues the mark, Economic Affairs Minister Erhard wants an international monetary conference, an across-the-board devaluation of the French franc, and possible devaluation of sterling. He would also like to have a period in which rates would be free to fluctuate so all the currencies would find their own levels.

In Paris, Finance Minister Gaillard's program of austerity has all but collapsed. Food prices are rising, gold has hit its highest price since 1952, and there is growing flight into deutschemarks. All this weakens the case for foreign assistance that Gaillard had planned to make before the International Monetary Fund meeting in Washington next month.

U. S. officials want no part of these European arguments. They believe the pound is at its approximate value. For proof, they point to Britain's favorable balance since Suez. But they do admit Erhard's argument that the mark's value seems about right in comparison with the dollar and the Swiss franc.

The curious part about the crisis is that Europe is in reasonably sound shape economically. Symptoms of illness are limited to rising prices due to wage inflation—and these haven't yet affected exports.

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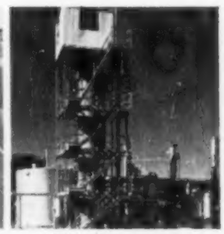
Latin American countries aren't getting much out of Washington at the full-dress economic meeting of the Organization of American States in Buenos Aires. It looks as if the conference will merely bring the 20 Latin countries closer together in grappling with their common economic problems—with the U. S. watching from the sidelines.

The conference will produce few concrete results. At most, observers expect the meeting will come up with:

• **A vague economic agreement** that will fall far short of Latin hopes for U. S. commitments on purchases and prices of raw materials.

• **New common market proposals** that will be handed to the U.N.'s Economic Commission for Latin America for further discussions.

Good transportation— a Florida trademark



Mild climate means construction economies

"Fun ahoy" on lake, waterway, ocean shore

BUSINESS ABROAD

German Prosperity—

West Germany's bulging store of gold and foreign exchange reserves may be just as much a threat to European stability as the shaky French franc. But the Germans don't want to revalue the mark unless Britain and France take action, too.

MOST EUROPEAN currencies—the franc and sterling in particular—are reeling a drain these days. But not so the West German mark: West Germany's gold and foreign exchange reserves are pushing past the $5-billion point (chart). And to Ludwig Erhard, the Bonn government's Minister of Economic Affairs (picture), it's almost too much of a good thing.

Erhard, like most European economists, feels as much anxiety about the overweight mark as he does about the anemic franc. The deutschemark's reserves climbed 50% in the last year, 100% in the last two years. This has had such a magnetic effect on European speculative capital that last week the Bundesbank—Germany's central banking system—clamped down with new restrictions. It raised the reserves that banks must maintain for all foreign sight deposits from 20% to 30% and doubled the 10% margin demanded for foreign time deposits.

• **Inflation Scare**—The Bundesbank can't just sock away its reserves and forget them. West Germany suffers a general shortage of capital—which anti-inflation measures have intensified. The nation's industrialists would like to get their hands on some of Erhard's reserves. However, with over-full employment, full-capacity production, and an export boom, Erhard and other policymakers fear that would tip the balance toward inflation. Then Germany might be in the predicament of France, where the boom is out of hand (BW—Aug. 17'57,p133).

One way out would be to revalue the deutschemark so that its value is higher in relation to other currencies. That would slow the drift toward the deutschemark from the franc and sterling. But Erhard says such a move wouldn't be fair unless the French accept a full devaluation in the franc and sterling is devalued, too, to move these currencies closer to their real worth. Besides, revaluation of the mark would probably aggravate Germany's still adverse balance of trade and payments with the U.S.

That's why Erhard—when he turns up in Washington next month for the annual meeting of the International Monetary Fund—will make a big pitch for a general European conference on currency. And he is asking for U.S. support in convincing the British to go along (page 127).

• **Success Story**—The Bonn government launched its postwar drive for recovery with a bid for export markets. By 1952, exports were exceeding imports, and the spectacular rise has continued. In 1956, German exports totaled almost $7.4-billion—more than $690-million better than imports.

But more than the trade surplus is responsible for the growing reserves. For the first half of 1957, Germany's trade balance with European Payments Union countries was $125-million bigger than in the same period last year. The total payments surplus with EPU was $400-million bigger.

• **Fiscal Dilemma**—The Germans are caught between two problems: (1) maintaining the internal stability of the mark by anti-inflation policies and (2) coping with the mounting surplus in the balance of payments. Heinrich Vocke, chairman of the Bundesbank, and his policymakers have always plumped for internal stability. This has kept a rein on inflation but crippled the deutschemark's relations with other currencies.

No European central banker has taken such a tough line against inflation as Vocke. Since 1948, he has raised the central bank's interest rate 13 times. Last year, when interest rates reached phenomenal highs, he started a massive open-market operation by which almost $1-billion worth of paper has so far been sold. He has also hiked the legal reserve limit for commercial banks, so that they are now obligated to keep an additional $157-million on deposit, interest free. Then came last week's increase in reserve requirements for foreign depositors.

It's no wonder that Chancellor Konrad Adenauer, himself a man of iron will, has called Vocke's bank "a law unto itself."

But it's also possible that Germany's anti-inflation campaign has, in the long run, aggravated the problem of maintaining the boom. German industrialists, now paying at least 8% or 9% for investment capital, are itching for a taste of Erhard's reserves. They are in

Too Much of a Good Thing?

Economics Minister Erhard wants an all-European solution for Germany's problem.

the ironic position of seeking financing in countries that are handing over their gold and dollars to the German reserves. In recent weeks, this kind of borrowing has been stepped up, in anticipation of German revaluation. This has led German and foreign speculators to try to get as much "hot money" into Germany as possible.

• **Solution?**—There has been increasing talk of revaluation proposals. The mark would be pegged at least 10% higher. This would almost certainly slow the accumulation of reserves, and it might even drain some of them away.

But there is resistance, official and unofficial. Since the postwar currency reform of 1948, the Germans feel, they have made their currency "overly sound" and piled up reserves through their own prodigious effort and discipline. They self-righteously feel that if everyone in Europe worked as hard as they do, the payments problem would be solved.

German industry argues that the country is importing twice as much from the dollar nations as it exports to them. A higher-priced mark, they contend, will mean even fewer sales in the dollar area.

• **Advocates**—Still, the pressure is mounting for something to be done. Paris has heightened it by partially devaluing the overpriced franc—the first step toward a more realistic relationship among European currencies. The British are demanding that the Germans answer by hiking the price of the mark. Now that Germany has solved some of its economic problems, London maintains, it should put German export prices on a more realistic level by encouraging internal consumption.

Erhard, however, will discuss revaluation only as part of a package deal involving all European currencies. At the IMF meeting in Washington next month, he will try to sell this program:

• A meeting of the European countries concerned, plus the U. S., to examine all exchange rates.

• A trial period during which the open market would establish the level of all currencies.

• Eventually, free convertibility, within a framework of a broadly integrated free trade area—extending beyond the present Common Market.

• **Sales Help Wanted**—Erhard wants the U. S. to bear the brunt of convincing the other Europeans—especially the British—to buy his proposals. At the same time, he is prepared to take measures urged by London and Paris after Germany's Sept. 15 elections. These might include:

• Transfer of some of Germany's reserves into a special capital fund for overseas development.

• Dropping all Germany's import restrictions to encourage domestic consumption.

• A speedup in payments of German international obligations, such as the more than $2.6-billion in war debts, and the $1.6-billion owed to Hitler's victims. END

Bel Air Convertible with Body by Fisher!

In Business Abroad

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New Tariff, Foreign Exchange Laws

Leave Business Wondering in Brazil

Will it help—or will it hurt? That's the question both Brazilian and U.S. businessmen are asking, now that Brazil has passed legislation setting up new tariff and foreign-exchange systems.

From the complex legislation, three things seem clear:

• Brazil's government will get more income from customs duties.

• Brazil will give more protection to local industries—and thereby encourage production inside the country.

• A new two-category system for buying foreign currencies will replace the old five-category system.

In addition, there's an amendment to the legislation that will boost automobile imports—and help bring down the fantastically high prices for new cars.

But foreign businessmen claim that the legislation will cut into remittance of dividends to stockholders. Both Brazilian and foreign businessmen say that the legislation will lead to more inflation—in a country where there's plenty already. As for the new rates for buying foreign exchange, everyone seems to be in the dark.

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Bottlenecks in Panama Canal

To Be Unplugged, If Congress Acts

The Panama Canal Co. has come up with a $20-million program for eliminating the costly traffic bottlenecks that plague the canal's day-to-day operations.

The program—still to be approved by Congress—calls for widening and deepening narrow sections to allow two-way traffic. It also includes installing lights in key locations so ships can make the trip night or day.

Over the past five years, canal traffic has risen rapidly. In fiscal 1952, the canal carried 6,542 ocean-going ships; last year, 8,848—or 24% more. **The new program, financed from canal revenue, would boost capacity about 25%.** The company says this should be enough to take care of a sharp increase in traffic during the next decade.

But the new program does not face up to the canal's major long-range problem: how to modernize locks so they could handle supertankers and big Navy ships.

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Italian-Iranian Oil Royalty Deal

May Have Broken 50-50 Precedent

For the past year, Enrico Mattei, who heads ENI, Italy's state-owned oil company (BW—Apr.13'57,p132), has been traveling the Middle East and North Africa in search of oil concessions. Right now, he's trying to get access to Saudi Arabia. But his actual box score so far isn't overly impressive: a provisional agreement with Egypt on Sinai oil development, a pact with Iran for three fields (still subject to the Iranian Senate's approval).

The real problem for major oil companies is whether or not Mattei has broken the time-honored 50-50 royalty arrangement in his Iranian deal.

Top oilmen in London claim he hasn't. They say that, in effect, Mattei will work in Iran on a 25-75 formula. But the form of the agreement—which is what counts, they say—is still the old 50-50 arrangement.

Here's their explanation:

Mattei's ENI and the Iranian National Oil Co. will jointly own a new operating company on a 50-50 basis. **The crucial point, oilmen say, is that the operating company will pay 50% of its profits to the government**—following the standard type of oil company-foreign government arrangement.

But skeptics point out that, after handing over 50% of the profit to the government, the operating company then splits the remaining net 50-50 with Iranian National Oil. That leaves Mattei—who is putting up all the operating money—with only 25% of the profit.

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IBEC Stakes Out Development

In New Quarter—Southeast Asia

Since the war, the International Basic Economy Corp.—headed by Nelson A. Rockefeller—has put money into Latin American development (BW—Apr.27'57,p122). More recently, it has shared a 50% interest in a West German coffee-packaging plant and laid plans for five supermarkets in Italy.

Now IBEC is making its first major move in Southeast Asia. It has acquired a controlling interest in Economic Development Corp., headquartered in Bangkok, Thailand. Economic Development, an offshoot of International Services, Inc., of Washington, does an export-import business in Thailand, Cambodia, Laos, and South Vietnam. It also represents some leading U.S. and European companies in agricultural and industrial development in the Southeast Asia area.

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Business Abroad Briefs

Mexico City is battling an epidemic of grippe—just after recovering from an earthquake disaster. About 1-million Mexicans—25% of the city's population—have the grippe, and it's spreading southward. Authorities claim the epidemic is only grippe, not Asiatic flu.

Pepsi-Cola International is decentralizing control and operations of its 162 overseas bottling plants by setting up six divisions—each headed by a vice-president and responsible for making its own profit.

Oil in Algeria isn't the only interest French businessmen have in this North African area. All of France's major steel companies have teamed up to finance a $700,000 study looking toward construction of an Algerian steel mill. Preliminary estimates put cost at $85-million.

LABOR

Curtain Rises on Hoffa Hearings

Star witness in labor racketeering probe bars his loan transactions with Teamsters unions to McClellan committee.

The liveliest show in Washington was staged this week under television Kleig lights in the cavernous, marble-walled caucus room of the Senate Office Building.

The star performer: James R. (Jimmy) Hoffa, heir apparent to control of the powerful International Brotherhood of Teamsters. The story line: Hoffa's life and time as an ambitious, rising labor leader with a penchant for a variety of business enterprises on the side.

When Hoffa eased into the witness chair before Chmn. John L. McClellan's select eight-man Senate committee on Tuesday, it was the climactic moment in a lengthy set of hearings that have featured stories of corruption inside and on the fringes of the giant Teamsters union.

The committee questions developed a picture of Hoffa as a man of many interests and many interesting operational techniques—not the least among them his habit of borrowing from friends and union funds and, for years, dealing only in cash to conduct his various business undertakings.

Hoffa's answers, in turn, showed a many-sided personality. He was both tough and gentle, expansive and evasive, sharp of wit and short of memory. But, above all, Hoffa presented himself as a man with his guard up.

The McClellan hearings had already helped nudge Teamsters' Pres. Dave Beck toward retirement under a cloud; Hoffa, with Beck's prized job almost in his grasp, warily circled traps that the McClellan group hoped would plunge Hoffa into disrepute with the Teamsters rank and file.

• **Hoffa and the Hoodlums**—The most damning evidence the committee had assembled against Hoffa showed that (1) he tried to obtain for John (Johnny Dio) Dioguardia, a known hoodlum, a Teamsters local in 1953 for the purpose of organizing New York taxicab drivers, and (2) he was the prime force, in 1955, behind charters issued to seven "paper" locals in New York that gave Dio and another racketeer, Anthony (Tony Ducks) Corrallo, a role in New York Teamsters affairs.

Thomas L. Hickey, sixth vice-president of the International Brotherhood, gave the committee the story of Hoffa's 1953 attempt in behalf of Dio—a move that committee counsel Robert Kennedy says was thwarted only by last minute protests from AFL Pres. George Meany after Beck had agreed.

Another Teamsters' vice-president, Einar Mohn, put the finger on Hoffa as the instigator of the charters for the phony locals in 1955. But Mohn insisted that Hoffa's only object was to expand Teamsters jurisdiction in New York.

At midweek, Hoffa's version of the New York story was just beginning to be told. By Hoffa's second day of testimony, the committee had already interjected the names of two big-league hoodlums—Dio and Paul (The Waiter) Ricca, an old Capone mobster. Records show two of Hoffa's locals paid $150,000 for Ricca's suburban Chicago estate, for use as a school to train Teamsters business agents in contract negotiation and welfare and pension fund management.

• **The Businessman**—Counsel Kennedy spent the first day developing the story of Hoffa's business enterprises and heavy borrowings. Between 1952 and 1956, Hoffa testified, he borrowed about $120,000, much of its from his own Teamsters Local 299 in Detroit or from business representatives of Local 337, headed by his Detroit Teamsters ally and frequent business partner, Owen (Bert) Brennan.

The loans were interest-free and tendered without collateral.

The involved business-financial record also shows:

• Hoffa currently owes about $70,000 on unrepaid loans, many of them of five years standing, unsecured and from lesser officials in the Detroit hierarchy of the teamsters.

• Hoffa obtained a $5,000 loan in 1953 or 1954 from J. L. Keeshin, owner of a Chicago truck line with which the Teamsters union has negotiations. Hoffa said it was repaid.

• The wives of Hoffa and Brennan, in a firm chartered under their maiden names, received profits of $125,000 in six years from a truck-leasing company that hauled Cadillacs for a Detroit company where Hoffa once helped settle labor trouble.

• Harold Mark, an auditor, borrowed $25,000 from the treasury of Hoffa's Detroit local coincidentally with Mark's making a loan for the same sum to Hoffa.

Hoffa had bragged that he keeps his local "fully informed" of his transactions, but observed that he probably hadn't told the membership about the Mark loan.

• Another $25,000 loan came from Henry Lower, a former Teamsters official who turned realtor and developed Sun Valley Enterprises in Orlando, Fla., where Detroit Teamsters were urged by their union leaders to buy lots "for homes of tomorrow."

The record, built up painstakingly by Kennedy, showed Hoffa's associates in the business undertakings were invariably people with a management role in negotiating with Teamster locals or who wrote insurance for Teamsters organizations.

Kennedy also forced Hoffa to lay his criminal record on the line—17 arrests, three convictions. Clearly, Hoffa saw in young Kennedy his chief adversary and he gave him clipped, brittle, often brusque replies—such as, "You said it, brother" or "You are so right, Bob," or a mere "Yep."

• **The Philosopher**—With the senator-members of the committee Hoffa was a model of propriety and humility—it was always "Sir" or "Senator."

This was apparent when Sen. Irving M. Ives (R.-N. Y.) virtually bestowed—in advance of the Teamsters election next month—the union presidency on Hoffa and wanted to know whether, in fact, he did plan to drive for a super-union of all U. S. transport workers.

Hoffa smiled broadly and said he was glad Ives asked that. Hoffa said he had been "misquoted" on the subject before and all he really suggested was a "loose knit" arrangement—"some sort of a council" where transport unions could exchange ideas, because "they are going to have to quit competing with each other" for jurisdiction and wages.

Industrywide bargaining for all transport workers by a single labor organization, Hoffa dismissed as "impractical." A nationwide shutdown of all transport? "There's more danger that transportation could be tied up by a shutdown of heavy industry."

Other Hoffa philosophical sorties:

On influence: "The more power that's concentrated into unions the more responsibility unions must exercise in order not to lose their rights to have a union."

On leadership: "I know a lot of people disagree, but labor leaders are not the judge of whether to have a strike."

Of his own enterprises that arouse conflict of interest suspicions, Hoffa said he plans to get out as soon as he can sell without taking a loss—"but you know how the money market is today."

To the end, he defended his family's interest in truckline management.

Hoffa was the last witness before the McClellan committee for the time being, but the hearings will resume later in the fall. END

News Briefs FROM SPARTON

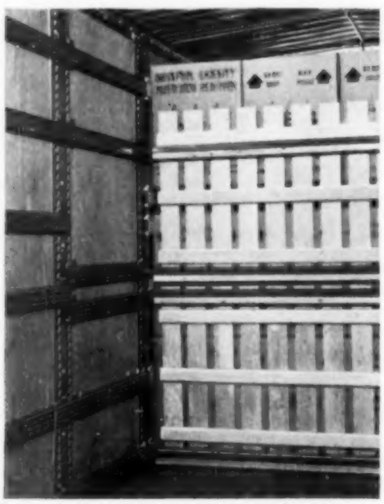
DOOMS DEADHEADING OF SPECIAL BOX CARS

Of the nation's 1,810,000 freight cars, only 4% are specially equipped with permanent dunnage to speed loading, eliminate damage. Advantages are widely accepted but conversion of standard cars has gone slowly because inflexible dunnage systems cause deadheading—the costly practice of returning a "special" car empty to its assigned shipper.

At Chicago's Union Station, however, railroad executives recently previewed the practical solution: Sparton's new Tri-Belt Flexible Loading System. Its T-slot perforated vertical members can be installed in new or old cars. In a few minutes, horizontal rails are locked wherever needed, then crossmembers inserted to hold in lading.

A Tri-Belt equipped box car can, for instance, be used on westbound service with a mixed load of appliances, building materials, etc., then be returned eastbound as a standard box car—even hauling grain. Tri-Belt members are conveniently stored when not in use.

Biggest incentive to carriers: Vertical Tri-Belt T-slot members can be built into new cars at little extra cost. Horizontal rails and crossmembers need not be ordered until needed. Write Sparton Tri-Belt Division, Jackson, Mich., for brochure.



Tri-Belt side rails quickly lock in—are adjustable to any type load.

Designed to Conserve Dwindling Water Supplies

Efficient control of tightening water supplies is the keynote of new tank controls being built by Sparton's Control Systems Division. They're installed in processing plants and municipalities to predict demands, watchdog resources and cut pumping costs.

Typical is this flow rate and level recorder for two remote tanks. Alarms warn of tank overflow or low level. The supervisor can easily gauge off-peak reserve pumping to assure ample supply, and limit peak pumping to exact needs.

Sparton's new tank control is designed to watchdog city water resources.

Standard units are easily installed by the average electrician. Other Sparton standard remote controls include: (1) Val-Con Valve Positioning; (2) Audible Alarms; (3) Bi-Directional Flow; (4) Pressure Telemetering. Brochures available from Sparton Controls Div., South Horton St., Jackson, Mich.

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Formerly The Sparks-Withington Co.

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Skilled Worker Is Still Kingpin

● This year's defense cutbacks have eased the labor shortage some—but not so much as was expected.

● Stepped-up company and apprenticeship training programs account in part for shrinking Want Ad columns.

● But there's still a crying need for highly trained machinists, tool and die makers, and engineers of all kinds.

Skilled labor is still tight, but not so tight as it was a year ago.

That's the consensus of BUSINESS WEEK reporters who, this week, made a coast-to-coast check to see what effect cutbacks in the nation's defense program are having on the labor market.

Already, reaction to the beginning of the transition from aircraft to missiles with their lower labor content is showing up in shrinking Help Wanted columns, in the reclassification by the Labor Dept. of regional labor markets (BW–Aug.3'57,p20), and in the reports of a less critical shortage of engineers (BW–Jul.6'57,p56). Even so, many cities—particularly heavy industrial areas—still face a shortage of skilled labor, with machinists, tool and die makers, and engineers heading the hard-to-get list.

• **Hoarding**—Whether a labor surplus is in the offing, or whether the situation reflects a better long-term balance between supply and demand is debatable. A first reading indicates that there may be a better long-term balance. For one thing, many employers, still groggy from the postwar nightmare when they were glad to hire any warm body, are hoarding their best men, rather than expose them to the predatory claws of their competition.

• **Oversupply**—Of course, the pattern varies widely, depending on where the defense cutbacks bite deepest. A spot-check shows that:

In Los Angeles, 6,305 workers got pink slips—in the first stage of a 15,600 cut in payroll—when the Air Force canceled its contract with North American Aviation, Inc., for work on the Navaho guided missile (BW–Jul.20'57,p28). Other industries in the area didn't gain skilled labor, because aircraft workers are usually too specialized to switch over to other jobs.

San Diego, big aircraft center, blames its sharp surplus of skilled labor partly on major layoffs elsewhere, coupled with the fact that the word hasn't got around yet that San Diego plants have quit mass hiring. In this city, Want Ad columns have dropped three-fourths in volume. One company that used to take two to four columns a day now lists its needs in a peanut-size advertisement.

Detroit reports that the skilled labor market is slightly more flexible than it was at this time last year, and shows a trend toward further loosening before the end of 1957. Employers attribute this to stepped-up apprenticeship programs and to the layoffs that followed reductions in automotive production and in defense contracts. However, one industry spokesman says the supply of skilled labor can never be considered plentiful, and his company is constantly on the lookout for qualified men.

In Louisville, which was particularly hard hit by the postwar labor shortage, industrialists say that local expansion has more than absorbed the supply of skilled men. One company reports that last week, for the first time in recent years, tool and die men had come to its employment office looking for work.

• **In Demand**—On the other hand, the Carolinas are desperately in need of engineers and top-ranking office workers. And the shrinking hosiery manufacturing industry needs skilled operators of machines making circular knit hosiery. In some cases, workers are holding down two jobs in different plants. In contrast, there is ample supply of skilled people for the machines knitting nylon full-fashioned hosiery, a business that is experiencing a depressed market.

In Cleveland, the shortage is almost as serious as it was during World War II. "It will remain thus for the next 10 years," industrial spokesmen say. "One of the primary factors is the low birth rate of the '30s."

The Houston area is still tight, but has eased a little. Engineers—mechanical, electrical, chemical, and civil in that order—are still in short supply.

The Houston Chamber of Commerce bears out the engineer shortage in a survey that found salaries for this group up considerably from a year ago. The report said in part, "Highest salaries again went to members of the engineering profession where beginners were receiving salaries ranging between $400 and $631 per month."

In Rochester, where there has been an easing in the skilled labor shortage since January, indications are that the situation is tightening up again. The city's Industrial Management Council attributes this to the fact that there has been no appreciable influx of skilled men from other areas, and that nonprofessionals tend to sit tight in a low-employment cycle, hoping for better times or training for different jobs.

Utah employers are still singing the blues over the manpower shortage. One reason is that a number of large industries have recently located in that state. Another is that recruiting programs of other states lured away many workers—particularly to the West Coast aircraft companies.

• **Natural Sequence**—With the exception of a few in the hardest-hit areas, the industrialists interviewed do not foresee any sharp easing in the supply of skilled workers in the immediate future. In fact, most of them believe the current situation is not so much a "softening" as the natural sequence to a number of stopgap measures taken during the acute years. They point out:

• Company training programs are finally beginning to pay off. This gives them a pool of trained workers from which to draw during expansion, or from which to replace workers with an itchy foot.

• Unions are stepping up their apprenticeship programs. Labor unions in Chicago, which have a requirement that only one apprentice is allowed for every seven journeymen, report almost no drop-outs in their training programs.

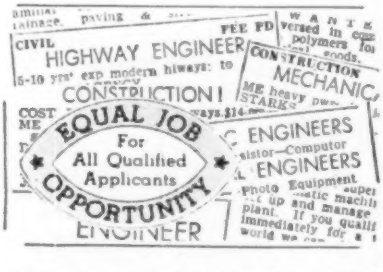
• The quit-rate has dropped. In most shops, seniority is king, and fringe benefits—including pensions and welfare plans—are widespread. These things tend to cut down job-hopping. These factors also show up in the drop in absenteeism and in the change in employee attitude since the cutback talk. According to one Los Angeles employer, "They aren't looking for minor irritations. If a guy can't find a convenient parking space these days he takes an inconvenient one and doesn't say anything about it."

• Today's labor force is less mobile than it was a few years ago. The workers who flocked to the big industrial centers during and after the war have settled there, and are reluctant to uproot their families even though the pastures look greener in other areas. Rather, they prefer to "wait and see" before selling their homes and having to put their children into new schools.

• Rosie the Riveter is back on the job. The children she had right after the war are big enough to care for themselves, and she would like a second car in the family—and is willing to go back to work to pay for it. END

Rooting Out Job Discrimination

The President's Committee on Government Contracts relies on persuasion to eliminate racial bias. It's pushing a new advertising program now, as part of a broad campaign.



You are going to see a lot more of the button shown above in the help-wanted pages of your newspaper. The President's Committee on Government Contracts, headed by Vice-Pres. Richard Nixon, is asking 50 major companies in the U.S. to feature this "bug" when they advertise for help. The equal rights ad is one step in the Administration's get-tough policy against racial bias in the employment practices of companies that have government contracts.

The Vice-President, who has been quarterbacking the Administration's civil rights fight all along the line, has been working behind the scenes, prodding companies that hold government contracts to recheck their hiring and promotion practices.

• **Key Man**—As head of the 16-man Committee on Government Contracts, Nixon is in a key spot to influence the adoption of fair employment practices. An anti-discrimination clause is written into all government contracts over $10,000. Annually, these contracts number more than 4-million, with a total value of some $15-billion. Millions of subcontracts also contain the equal rights clause. It's the committee's job to persuade employers to abide by the clause, which reads in part: "In connection with the performance of work under this contract, the contractor agrees not to discriminate against any employee or applicant for employment because of race, religion, color, or national origin."

The committee meets once a month with Nixon and Labor Secy. James P. Mitchell, who is vice-chairman, always in attendance. Other members include Fred Lazarus, Jr., chairman of Federated Department Stores; Maxwell Rabb, secretary to the Cabinet and the President's civil rights expert; George Meany, AFL-CIO president; and Walter Reuther, United Auto Workers president.

To symbolize its new approach to equal job rights, the committee is planning to hold a session in the South—New Orleans or Atlanta—in the near future.

• **Tactics**—Mediation, conciliation, and persuasion have been the operating tactics of the committee. Through the various government agencies that let federal contracts, the anti-discrimination team has talked, cajoled, and pressured employers into following the rules. But success, to put it mildly, has not been startling.

Since it was set up in 1953, the contracts committee has never asked a federal agency to cancel a government contract—even in the face of outright abuses—though such authority does exist. And no such request is contemplated.

• **Tougher Attitude**—However, the lighter touch is giving way to a heavier hand. That's evident from these recent developments.

• Vice-Pres. Nixon is promoting a new approach through 26 federal agencies, urging them to put some teeth into the four-year-old conciliation system. While still avoiding the use of the full penalty of contract cancellation, Nixon wants any agency that sees "clear and convincing evidence" of violations of the equal rights clause to refuse to renew contracts, or deny a contract to a proposed new bidder.

• A new survey is under way on the hiring and promotion practices of the top 250 government contractors located in 25 metropolitan centers where the Negro population amounts to at least 50,000. This will supplement the information the committee now gets through specific complaints, which added up to an unimpressive total of 84 last year.

• The committee is promoting an advertising plan among employers. In a request to 50 key companies, it is asking them to insert in all their help-wanted ads a spheroid-shaped emblem that says: "Equal job opportunity for all qualified applicants." So far, 15 have agreed, including American Bosch Arma Corp., Bulova Watch Co., New York Shipbuilding Corp., Philco Corp., RCA, North American Aviation, and General Provision Laboratories, Inc.

These latest moves still emphasize the voluntary approach to wiping out discrimination. Employers still aren't going to receive orders to end all anti-discrimination policies—or else; the idea is simply to apply a little more pressure in an area where progress is made slowly.

• **Scorecard**—The Nixon group works on its own in key industries where complaints of discrimination are received. In some cases, some significant successes have been scored; in other cases, attempts have been pretty fruitless.

The oil industry, for instance, has had a long-established policy of keeping separate promotion lists for whites and Negroes at its refineries. As a result, Negroes have been kept in menial jobs. This policy has had the strong support of all-white local unions. But through continuing negotiations, the government contracts committee has been able to eliminate the separate listings at two plants—Esso Standard at Baton Rouge, La., and Shell at Houston, Tex. The committee, however, has had little success in wiping out discrimination at other refineries.

A series of complaints involving the airline industry is now being checked under a new cooperative program initiated between the committee and the 10 largest airlines, which report quarterly on the number of Negroes hired and promoted. But this covers only ground employment of mechanics and clerical help, with an "important breakthrough on the reservation desk in several cases. In the air, nearly all flight crews are still all-white.

• **Difficult Industry**—The railroad industry's discrimination policies are still unsolved, though the Nixon committee, with some new complaints before it, is ready to take a tougher attitude. Both the industry and the railroad unions have shown reluctance to alter past practices and the committee anticipates some difficulty in future conferences.

Biggest successes scored to date by the committee have occurred right in its own back yard in the District of Columbia. Several key companies have been targets of the committee, which broke down racial barriers in the Capital Transit Co. and in the Chesapeake & Potomac Telephone Co.

Getting employers to hire workers regardless of race or color is the committee's first aim. This has to be its point of emphasis, since the contractor is the party legally responsible to the government; unions can be approached only by common consent.

• **Subsidiary Aim**—But the committee also is trying to promote apprenticeship training courses and get Negroes to enter them, so that when jobs are opened to Negroes in the skilled trades, they will be qualified to fill them. END

In Labor

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Teamsters' Failure to Wash Linen Puts AFL-CIO Head in Bad Mood

AFL-CIO Pres. George Meany ended the four-day summer meeting of the federation's Executive Council (BW—Aug.17'57,p140) in a snappish mood last Thursday. Asked about the pledge made last May by John F. English, secretary-treasurer of the 1.5-million member Teamsters, that the union "would clean their own dirty linen," Meany snapped: "No, they haven't cleaned their dirty linen." He testily refused to comment on testimony unveiled at Senate hearings linking the main contender for the Teamsters' presidency, James R. Hoffa, and racketeer Johnny Dio.

The council set Sept. 24-25 as days of decision in the corruption cases of the Teamsters, Bakery & Confectionery Workers, and United Textile Workers. **But as far as disposing of the troublesome Hoffa is concerned, council members seemed to place more hope in developments before the Senate committee than in reports of the AFL-CIO's own Ethical Practices Committee.**

In other actions, the AFL-CIO council:

• "Scolded" Congress for delaying the passage of a law requiring full disclosure of the financial operation of all health, welfare, and pension programs.

• Received a report from the Sheet Metal Workers union that it would not boycott products of the Burt Mfg. Co., Akron, Ohio, and would instruct its members to install Burt metal louvres and ventilating equipment. The United Steelworkers are bargaining agent at Burt, and SMU members have refused to handle Burt products. Meany said a special committee would investigate to see whether the SMU promise is carried out.

• Authorized the construction of an eight-story addition to the new AFL-CIO headquarters building in Washington, D. C.

• • •

IAM Charges That Two Members Are Trying to Set Up a "Dual" Union

The old controversy between skilled craftsmen and industrial-type workers flared up again within the International Assn. of Machinists with the suspension of two Chicago machinists for active leadership in an "inside-the-union" club that advocates separate negotiations for skilled workers.

The two IAM members were also fined $500 each for participating in the leadership of the United Aircraft Mechanics Club, Inc.—a year-old club of about 1,000 skilled employees of United Airlines, Inc., all IAM members. The club has opposed the election or re-election of certain union officials within IAM Lodge 1487.

Victor C. Lingis and Charles E. Beutell were suspended this month by Albert J. Hayes, IAM president and chairman of the AFL-CIO Ethical Practices Committee. **The union charged that by joining the club and advocating separate negotiations for skilled workers, Lingis and Beutell were attempting to inaugurate and encourage secession from IAM.** They were also accused of attempting to establish a "dual" union.

Lingis and Beutell have been denied the right to attend union meetings and hold office for five years. Beutell was the first recording-secretary of Lodge 1487. Unless the two machinists pay the $500 fine by Sept. 22, they will be dropped from union membership. Lingis and Beutell say they won't pay on principle. Lingis is appealing the decision. Their jobs, however, are not in danger even though the union has a union shop contract with United Airlines. They cannot be fired under the Railway Labor Act, which governs airlines, too. They can be discharged only for nonpayment of initiation fees, dues, and assessments—but not for nonpayment of fines.

• • •

Union Plumps for 32-Hour Week, Rebuffs Leaders on Dues Hike

A 32-hour week, with no cut in pay, was set as a bargaining goal by the Oil, Chemical & Atomic Workers at its convention meeting in Chicago last week. The 800 delegates did not insist that the shorter week be No. 1 target. Nor did they spell out whether they favored a five-day week with fewer working hours, or a four-day work week. Members of the union now generally work a 40-hour week.

The delegates also refused to increase the amount of dues paid by members to the international union. The per capita dues are now $1.50 a month. After a sharp debate, the administration of the union failed to muster the two-thirds vote required to pass a proposal boosting dues by 15¢.

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Taft-Hartley Does Not Prevent Suit, Says Washington Court

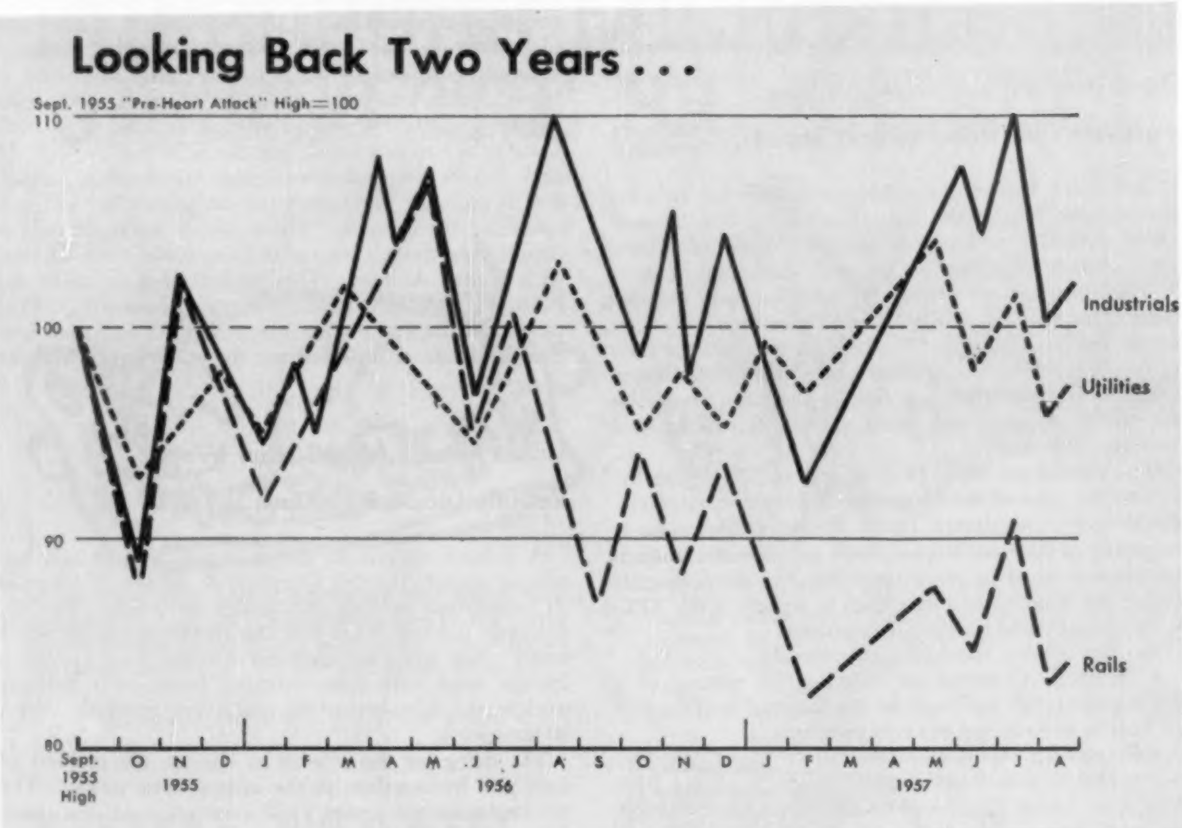
The Taft-Hartley Act does not prevent a union member from suing his union in a state court, says the Washington State Supreme Court. The court rejected an appeal by the Teamsters Union for reversal of $6,572.15 damages awarded Dell L. Selles, a member of Seattle Local 174, by the King County Superior Court.

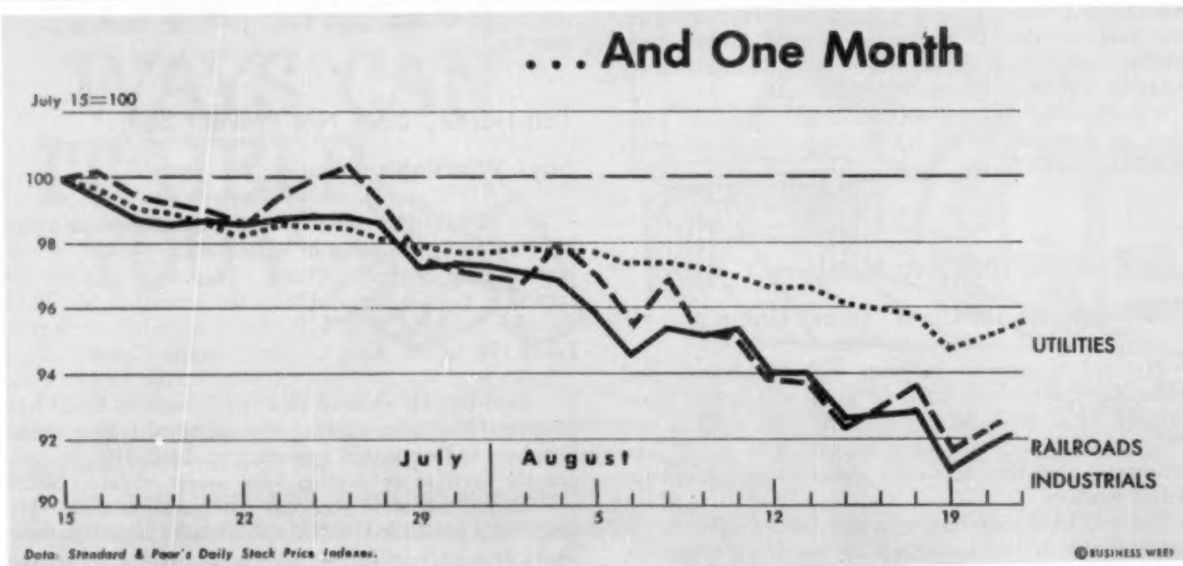
Selles sued his union for refusing to send him to work as a teamster. **He charged that the Teamsters Local had prevented him from working because he and other union members had organized a meeting in April, 1952, to protest the method of electing local union officers.** Selles said he was forced to seek less remunerative work. He first filed a complaint with the National Labor Relations Board but later withdrew the charges and sued in the state court.

The Teamsters Union contended that the state court had no jurisdiction because Congress preempted the field of labor relations under T-H and gave the NLRB exclusive jurisdiction.

The Washington Supreme Court, however, upheld Selles' suit.

The Case Study of a Nervous





The stock market this week climaxed its backing and filling of the past two years with a set of fast somersaults that upset many expectations. Despite the encouraging midweek recovery, many cautious Wall Streeters still have their fingers crossed on how "dynamic" the fall business trend may turn out to be.

Stock Market

Some Individual "Soft Spots"

COMMON STOCK	Aug. 19 Level	Loss Aug. 12–19 $	Loss Aug. 12–19 %	Bull Mkt. High	Loss from High
Allegheny Ludlum Steel	$47.00	$2.75	5.5%	$65.38	−28.2%
American Metal Co	22.00	2.25	9.2	34.75	−36.7
American Potash	49.13	3.75	7.0	66.75	−26.4
Anaconda Co	53.50	8.00	13.0	87.75	−39.0
Anaconda Wire & Cable	66.00	6.00	8.3	85.00	−22.4
Babcock & Wilcox	35.63	4.38	11.0	48.75	−27.0
Bath Iron Works	51.00	7.25	12.4	71.38	−28.6
Bristol-Myers	51.00	4.75	8.5	61.25	−16.8
Brunswick-Balke-Collender	66.13	4.88	6.9	77.00	−14.2
Burroughs Corp	42.00	3.63	8.0	52.38	−19.9
Phillip Carey	23.62	3.62	13.3	32.50	−27.3
Carpenter Steel	62.75	5.50	8.0	74.88	−16.2
Carrier Corp	46.25	3.25	6.6	65.25	−29.2
Chance Vought	29.88	3.13	10.4	49.25	−39.4
Clark Equipment	56.25	4.25	7.0	75.50	−25.5
Climax Molybdenum	69.00	4.50	6.1	78.50	−12.2
Consol. Electrodynamics	44.25	3.25	6.8	54.75	−19.2
Eastern Stainless Steel	48.25	5.37	10.0	60.75	−20.6
Fansteel	53.50	5.37	9.0	64.87	−17.5
General Tire	80.25	6.88	7.8	98.50	−18.6
Gulf Oil	128.62	8.75	6.4	152.00	−15.4
Hammond Organ	32.50	5.00	13.3	39.00	−16.7
Hudson Bay Mining	54.25	4.00	6.8	99.00	−45.3
Int'l Business Machines	308.00	23.37	6.8	376.50	−18.2
Int'l Nickel	84.63	7.00	7.6	115.38	−27.7
International Paper	94.25	7.75	7.6	144.50	−34.8
International Salt	106.00	9.00	7.8	144.00	−26.4
International Utilities	57.25	10.00	14.8	73.00	−21.6
Jones & Laughlin	55.00	3.63	6.1	64.13	−14.3
Kerr-McGee Oil	59.00	7.62	11.4	75.75	−22.1
Lukens Steel	87.25	11.37	11.5	127.62	−28.8
Mengel Co	40.50	17.75	30.4	61.00	−33.7
Minneapolis-Honeywell	97.00	8.00	7.6	131.00	−26.0
Minnesota Mining	82.75	8.12	8.9	101.00	−18.1
National Lead	119.75	8.00	6.2	138.00	−13.3
Newmont Mining	99.00	7.50	7.0	130.50	−24.1
Northern Pacific	41.50	3.25	7.2	49.75	−16.6
Olin Mathieson	49.00	3.00	5.7	62.38	−21.5
Pitney Bowes	59.00	4.00	6.3	70.75	−16.7
Reynolds Metals	50.00	4.63	8.4	58.50	−14.6
Ryan Aeronautical	31.00	3.87	11.1	43.50	−28.7
St. Joseph Lead	29.75	3.00	9.1	52.00	−42.8
Socony Mobil Oil	55.63	4.38	7.3	65.38	−15.00
Southern Natural Gas	40.13	3.13	7.2	49.25	−18.6
Standard Oil (Cal.)	53.25	3.25	6.1	59.88	−11.1
Standard Oil (N. J.)	61.25	3.75	5.7	68.50	−10.6
Stauffer Chemical	69.13	3.88	5.3	83.25	−17.00
Texas Co	69.25	4.00	5.4	76.50	− 9.5
TXL Oil	20.50	2.00	8.8	35.25	−41.9
Union Carbide	109.62	7.63	6.5	133.37	−17.8

NEVER EXPECT the stock market to show any consistency in the way it operates. Normally it's consistent only in being inconsistent.

That much quoted Wall Street warning is probably as old as the Big Board itself. But unlike so many other of the Street's hoary adages, basically it's just as true now as the day it was first uttered. For confirmation, you need only glance at some of the market's recent hard-to-explain shenanigans—particularly the sharp, unheralded ups-and-downs in prices that characterized trading proceedings early this week (charts, left).

• **Clearing Air**—Last week, as one much read market expert reported this Monday, "the stock market air" was finally "cleared somewhat" by the appearance in Big Board trading of "a long-awaited climactic phase of reaction," followed by a showing of "selective strength." That combination of events, he said, had "given investors a more relaxed feeling about the outlook than was possible" earlier "while the list was being subjected (for so long) to relentless pressure."

• **But Fog Returns**—Thus you might have expected Big Board proceedings this week to open up—at the very least—with a somewhat encouraging price tone. But the market being the inconsistent beast that it is, just the reverse was the case.

Right from the start of trading on Monday, prices generally got the worst pummeling they had experienced since mid-October 1955—when fears touched off by the President's heart attack still had the market in a ferment.

Individual losses on Monday were particularly noticeable and sharp in the case of many erstwhile buying targets. But few segments of the Big Board stock list were left untouched. Some 845 of the 1,162 different issues traded that day showed losses at the close. And of these losers, 169 were actually pushed down to new 1957 lows. The net result, according to rough Street figuring, was a dip of around $4-billion in the market value of all Big Board listed shares.

• **Further Down**—Since prices were still fading under increasing selling pressure when the gong closed Monday's trading, it seemed logical to expect a continuance of this most discouraging price performance the next day.

Thus no one was surprised that Tuesday's market opened with a price tone weak enough in the first hour or so of trading to send to new 1957 lows as many as 205 issues (almost 20% of the issues traded that day). As a result there were few Streeters who soon weren't waiting with baited breath for "the other shoe to be dropped."

• **Unexpected Somersault**—Again, however, the market showed its normal propensity to be consistent only in inconsistency. Despite fears, the "other shoe" never was dropped. Instead, the selling pressure that caused such havoc in the first hour suddenly evaporated. And it was replaced, not by just another "resting period," but by pressure on the buying side. This soon proved sufficiently potent to start prices generally high-tailing it to levels eventually high enough to wipe out about half of Monday's huge paper losses.

Wednesday, moreover, didn't bring the quick end of this valiant price rally that so many investors and traders feared as a result of the market's previous double-crossing of their hopes. Opening prices were above Tuesday closing levels in most instances. What profit-taking operations did appear were absorbed without trouble by available buying orders. And while as the day wore on the rallying proclivities never did reach their earlier intensity, another small chunk of Monday's sharp losses was recovered by a wide list of commons.

• **Why?**—What caused this week's early "off again, on again" Big Board sessions? As is usually the case on such

occasions, it's hard to pinpoint a definite cause.

Wall Streeters, of course, have some answers on tap. The most favored one at the moment is that Monday's sharp break was touched off mainly by the Soviet-inspired Syrian coup—and the subsequent recovery by a realization on the part of investors and traders generally that, for the moment at least, the coup is not likely to have any serious repercussions on either stock prices or the national economy.

Shrewd Streeters not in the habit of reaching into the air for explanations of market happenings don't entirely agree. As they see the picture, the Near East event, if it did mean anything marketwise, was merely seized on as an excuse for further selling by some of the increasing number of investors and traders who have started to worry more and more over the domestic economic picture. And the later encouraging price recovery they consider merely one of those technical upswings that always appear after an extended downward price trend in the market.

• **Cautious Ones**—That's not to say that this group has started pooh-poohing the rally still under way at midweek. But at the moment anyway they are not regarding it as an opportunity to board a new gravy train for another profitable trip. Most regard it rather as an opportunity to strengthen portfolios via the sale of any weak sisters still held, and to build up reserves still further. This group is still convinced that better buying levels will be available some time hence.

This cautious group, moreover, is not made up primarily of congenital bears. Among them are many who see considerable "prosperity" in store over the years ahead for those holding stocks. But they don't think the market prospect is going to prove all roses—particularly for the near and intermediate term.

One, for example, anticipates "over the next year or two . . . wide swings in the broad range of 50-42" in Standard & Poor's daily industrial average. Since this average is now around 47 he apparently does not expect much of a rise above present levels but sees the possibility of at least a 14% drop to a low not reached by the average since June, 1955.

• **Doubts**—What is worrying most of Wall Street's shrewder crystal ball readers at the moment is the level of business activity this fall.

Their reasoning boils down to this: The outlook for production, sales, earnings, and dividends in the period not only lacks the "dynamism" needed to provide any broad or vigorous rise in stock market prices—it also includes in its make-up the type of fuel on which serious price sell-offs often feed.

Wall St. Talks . . .

. . . about the flood of new issues . . . first-half earnings . . . bond yields . . . and Penn-Texas again.

One basic cause of tight money: Fed Chmn. Martin estimates that January-August sales of new corporate issues will total \$8.4-billion, against 1956's \$6.6-billion figure, and that local governments will sell \$4.3-billion, against only \$3.7-billion last year. Some \$2.2-billion more in new issues appear slated for offering soon.

Chivalry in uranium promotions: If a brand-new uranium company consummates its present financing plans, "insiders" will emerge holding 67.9% of its stock, "private investors" 24%, "public investors" only 8.1%. For their 8.1% cut, of course, the latter would have contributed 79.2% of all the cash invested in the company.

First-half earnings of 740 industrial companies came to more than \$5.9-billion—6.2%, or \$346-million, better than 1956 levels, reports Standard & Poor's. But Street bears were quick to note that (1) there were earnings drops in 36% of the 50 trades represented, (2) the oils (huge beneficiaries of the Suez crisis) provided 90% of the over-all gain, and (3) the rate of gain in the second-quarter ran sharply under that scored in the first.

How do government bond yields now compare with the 3.95% return of common stocks? Monday saw the Treasury 2¾s, 1961, offering a 4.02% yield to maturity; 1½s, 1962, 4.16%; 2½s, 1963, 3.97%; 2½s, 1972-67, 3.66%; 3¼s, 1983-76, 3.68%; 3s, 1995, 3.59%. The newly issued 237-day Treasury bills offered buyers around a 4¼% yield.

Penn-Texas Corp. is still buying Fairbanks, Morse & Co. common even though a court order prohibits it to control FM for five years. In July it bought not only 23,500 shares contracted for during the battle for control of FM but also an additional 2,100 from brokers on "the customary 70% margin" for "purpose of investment." This latter news caused much raising of Street eyebrows—for three reasons: (1) Penn-Texas apparently suffered a \$260,000 net operating loss in the second quarter; (2) at midyear, its current assets (64% in inventory) covered current debt only 1.8 times, and cash was equivalent to only 20% of such debts; (3) its FM stockholdings were then worth \$4-million (17%) under cost.

Short cuts with Recordak Microfilming

Latest report on how this low-cost photographic process is simplifying routines for thousands of business concerns and government agencies

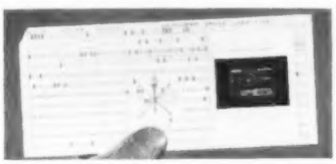
Major General J. D. O'Connell, Chief Signal Officer, U. S. Army, and Lt. Col. H. E. Nestelrode, a member of General O'Connell's staff, compare size of blueprints with that of microfilm aperture cards which will be furnished to selected Signal Corps installations

PUTTING ENGINEERING DRAWINGS IN "MICROFILM WINDOWS" SAVES $500,000 PER YEAR

FORT MONMOUTH, N. J.

An ingenious idea—the use of 35mm Recordak Microfilm in small aperture cards—does away with bulky blueprints . . . may well change engineering habits the world over.

Working with the U. S. Army Signal Corps in this revolutionary project at Fort Monmouth is the Recordak Corporation, Subsidiary of Eastman Kodak Company. Its recent discoveries in microfilming techniques and quality control allow the use of low-cost 35mm Recordak Microfilm instead of 70mm or 105mm microfilm. Its trained personnel, using specially designed equipment, handled what looked like an impossible job with relative ease.



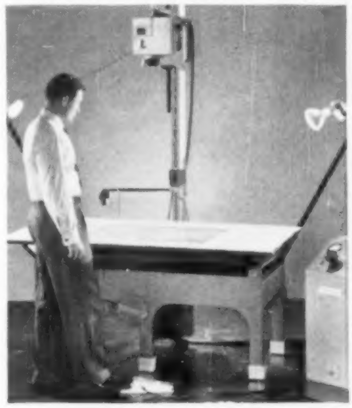
"Will save days and weeks in issuing defense contracts"

All in all, some 700,000 Signal Corps drawings, prints, and specification sheets—*all sizes, all ages, all colors*—are being reproduced uniformly on Recordak Microfilm. (Signal Corps requirements specify that the background density of the filmed images be controlled within the rigid tolerances of 1.0 and 1.2 on the A.S.A. neutral density scale.) Duplicate microfilm copies are then made from the "master" negative and mounted in the aperture cards. These ready-to-use records are forwarded—in place of blueprints—to the U.S. Army Signal Supply Agency and Signal depots throughout the world. Thousands of dollars are saved on mailing costs alone.

More importantly, this new system lets the selected installations keep hundreds of thousands of records at the fingertips in compact, uniform card files. Makes it possible to check any item immediately in a Recordak Film Reader . . . or make an enlarged paper print right on the spot. Delays of days and weeks in the repair of equipment and the procurement of essential defense items are eliminated by having records on hand.

New system hailed by engineers, draftsmen

Industry has been quick to see the advantages of this new Recordak System which, for the first time, allows superb reproductions of large, complicated designs on 35mm microfilm . . . and subsequent paper-print enlargements without loss of detail. Already many well-known companies have contracted for or are investigating Recordak's service.



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A few more busy weeks, and

. . . Ford forms an unbroken front in the Battle of Detroit — as fresh battalions of Edsels join the front lines

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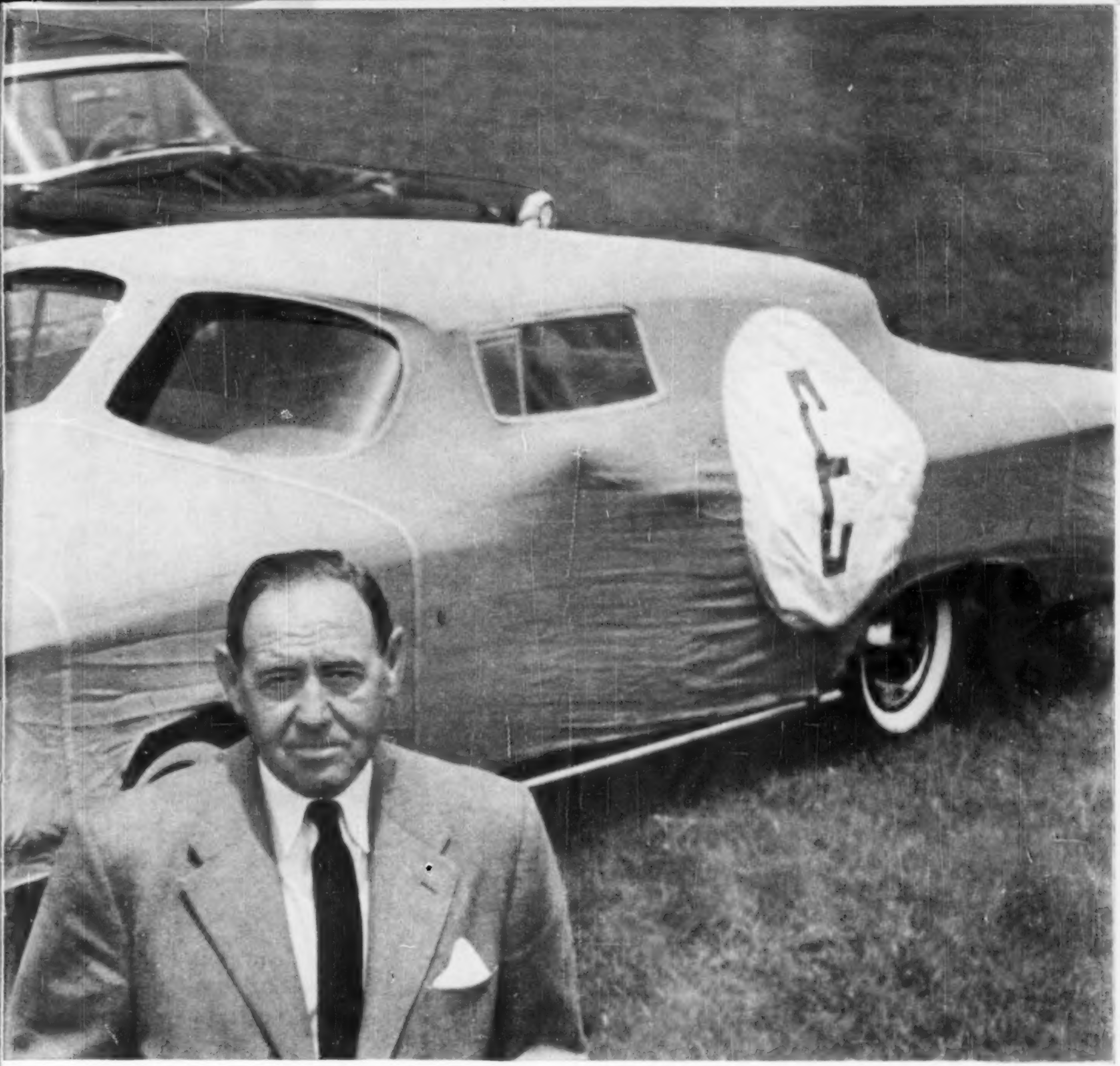
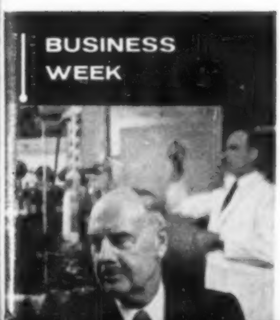


READER JAMES J. NANCE, FORD'S VICE-PRESIDENT FOR MARKETING — WITH HIS NEW FULL LINE.

then . . .

To the world of business, there is one thing about the Edsel more exciting than the mystery of "what's under that hood." It is the decade-long transformation of the Ford Motor Co., in its every aspect . . . its emergence next month as a full-line auto company . . . its conversion to integrated marketing strategy under dynamic industrialist Jim Nance. In these preceding 500 busy weeks, Business Week's own efficient departments surely served at Ford—*Production, Marketing, Research, Finance, Labor, Economics, Government.* For Jim Nance would have no other reason to read this magazine. Nor would President Henry II, Chairman Breech, and 453 other Ford management subscribers. Every word business-useful, Business Week delivers twice the business information of any other general-business or news magazine. And among such magazines, management men name Business Week "most useful." *You advertise in Business Week when you want to influence management men.*

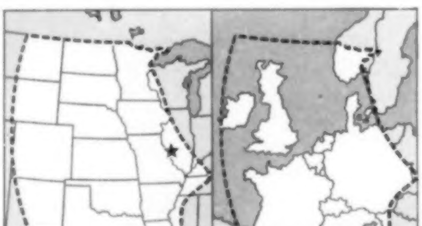


STEEL MAKES NEWS AT GRANITE CITY

Interesting, unusual facts about Mid-America's dependable source of flat-rolled steel

In one minute, Granite City Steel produces metal for more tin cans than the average family uses in 4 years!

Yes, every 60 seconds, eighteen hundred square feet of tin plate—enough to produce *thousands* of cans—rolls from Granite City Steel's electrolytic tin-plate line. Since 1946, the company has added *dozens* of massive, modern machines to meet Mid-America's ever-increasing flat-rolled steel requirements. In fact, during this period, Granite City Steel has grown three times faster than the industry as a whole. The company's present 3-year expansion program will provide even more steel for the Midwest and Southwest, making these areas more attractive to industries that need a dependable source of steel.



GRANITE CITY STEEL'S PRIMARY MARKETING AREA IS LARGER THAN CENTRAL EUROPE

As the two maps show, Granite City Steel's vast 22-state market is actually larger in size than Central Europe. Yet Granite City Steel is closer to the majority of customers in its sales area than any other major steel producer. Strategically located in the heart of a great rail-, truck- and water-transportation center, this modern, fully integrated mill serves customers quickly, efficiently and economically.

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SINCE GRANITE CITY STEEL 1878 ®

PERSONAL BUSINESS

BUSINESS WEEK

AUG. 24, 1957

A BUSINESS WEEK SERVICE

You're not alone if you've been thinking about real estate "syndicates"—perhaps wondering what they are and how they operate, and maybe considering whether they might be a good place to invest $10,000, $20,000, or more. The syndicates are becoming increasingly popular among investors in the high income brackets.

Through these syndicates, you pool your funds with those of other investors, each buying a "partnership share" in a major piece of city real estate. **You are promised a high yield**—often 8% to 15%. At the same time, **there are booby traps along the way** to be aware of.

Typically, a syndicate is born when two or three men, usually experienced real estate promoters, contract to buy, for example, a large downtown office building. **They form a partnership, deposit perhaps 10% of the cash payment, and reserve the right to assign the remainder of the contract**—that is, to raise the rest of the cash by selling partnership shares or "units."

Those in the original group serve as active partners and managers of the syndicate. **Those who subsequently buy shares become nominal or "limited" partners,** with no voice or vote in management.

Thus, the cash payment in the total purchase price of the building is "syndicated" among a number of investors—maybe as few as 10 or 12 or as many as 200 or 300. With cash covering 15% to 30% of the total purchasing price, the balance usually is financed through a mortgage.

Potential investors—often reached initially through private mailing lists—are sent descriptions of the offering (similar to stock prospectuses) when they show interest. **The prospectus analyzes the property in question, gives financial and legal details, indicates the probable yield.** Partnership units usually cost anywhere from $5,000 to $30,000 each.

Investors' liability, as well as their rights, is limited. Each receives a copy of the full partnership agreement.

Here's a simplified example of how a syndicated operation works:

Suppose the syndicate wants to buy a property that's priced at $1-million—with $300,000 to be paid in cash. The cash is raised among the partners, both active and limited, and the remaining $700,000 is financed by mortgages.

Free and clear, without mortgages, the building rents could reasonably yield $90,000 a year—a net of 9%—after operating costs and other expenses. With the mortgage, it might net $45,000. If the limited partners had been promised a 12% return on the cash invested, it would mean a payout of $36,000 to syndicate members. **The $9,000 left over from the $45,000 net would be the fee of the active partners,** the syndicate managers, in addition to any share they had in the $36,000.

From the investor's viewpoint, participation in a real estate syndicate has advantages:

- High yields of 8% to 15% in boom times, payable monthly.
- The chance to participate in ownership of a large property that would otherwise be beyond your means.
- The fact that earnings of the property are taxed only once—when

you as a partner receive the income—rather than twice as in the case of corporate earnings (once at the 52% corporation tax rate and again at your personal income tax rate when you receive the dividends).

• The depreciation write-off on real estate is passed on to a limited partner just as if he were sole owner of the property.

There are disadvantages, too:

• A chance that the Treasury Dept. may someday apply corporate tax rates to partnerships of this kind.

• A danger that rentals, hence earnings, would fall off in a recession, when your share as a limited partner might also be hard to sell. There's an outside chance, too, that not only would income stop but the whole investment might be lost in a foreclosure.

• Difficulty in getting the signatures of so many partners, especially in the larger syndicates, to convey clear title in case of sale.

Obviously, caution should be the rule. You should have a real estate expert check the property and an attorney review the "prospectus."

—•—

September is Sight-Saving Month—and **a good time for you and your family to have thorough eye examinations.** Too many people, the National Society for the Prevention of Blindness warns, wait until their sight is permanently impaired. Here are three important points to keep in mind:

• **Glaucoma,** caused by a steady build-up of pressure in fluid inside the eye, is slowly blinding about 500,000 Americans. Often there are no symptoms noticeable to the victim until the disease is beyond control. Early treatment usually arrests the disease; once vision has been destroyed, it cannot be restored. **Adults should have their eyes examined every two years.**

• **Children's eyes** should be examined every year—especially those of tots who can't tell when something's wrong. It's a good idea to check their vision before school starts next month.

• **Home workshop addicts** should, of course, wear shatter-proof safety glasses. These can now be ground to prescription.

For a free booklet on eye health and care, write to Prevention of Blindness, 1790 Broadway, New York 19, N. Y.

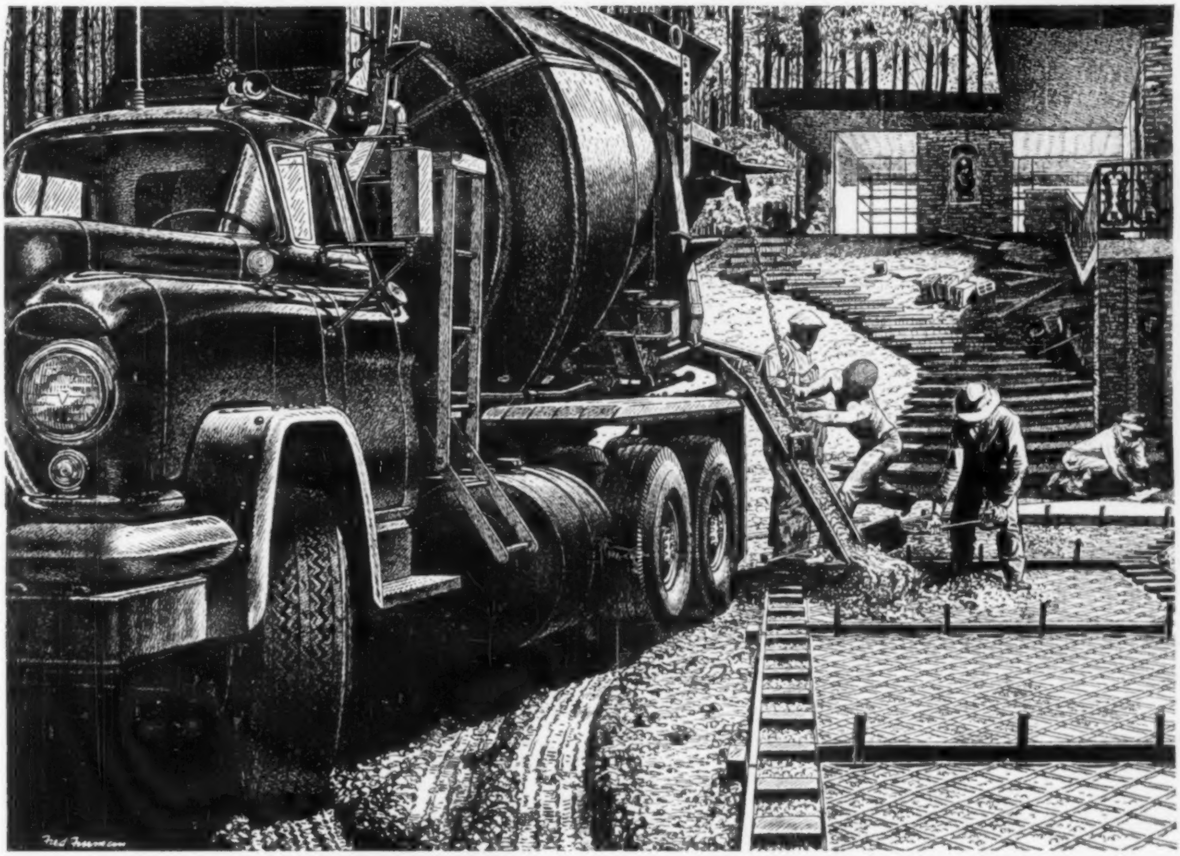
—•—

If you'll soon be sailing down the Intracoastal Waterway to Florida in the annual migration of yachts that starts next month, take note of the **new regulations concerning drawbridges,** effective Sept. 5:

Drawbridges will not be required to open for craft that would be able to clear the structures if it weren't for protruding objects not essential to navigation. Fishing outriggers, radio or TV antennas, false stacks, and ornamental masts aren't considered essential.

A bridge tender probably won't refuse to open the bridge, but if he thinks the opening was unnecessary, **he'll report the name of the boat.** An Army district engineer will then inspect the boat. If he decides the protruding objects are nonessential, he'll tell the owner to remove them before approaching low bridges. **If the owner fails to comply,** he will find the bridges closed the next time he wants to pass.

To avoid delays on your southward cruise, obtain details on bridge clearance from the Division Engineer, P. O. Box 1889, Atlanta, Ga.



FIREWORKS in Dow's vast magnesium mill come when molten metal is doused. A new charge of pig melts in foreground.

Magnesium Aims for the Big Time

Dow has deliberately overbuilt its wrought magnesium capacity in a determined drive for a bigger chunk of the structural materials market.

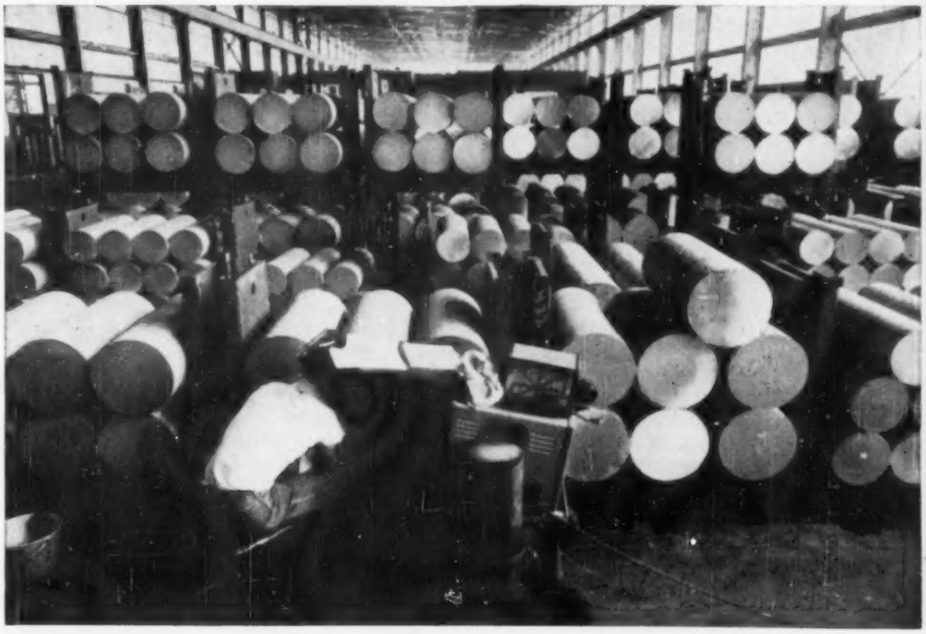
MAGNESIUM—one of the lighest structural metals known to man—may be poised for a new upsurge in popularity. A number of signs point in that direction:

• Dow Chemical Co. has gambled \$40-million on a huge Madison (Ill.) magnesium mill (pictures) with capacity to turn out perhaps four or five times more wrought magnesium products than industry will use this year.

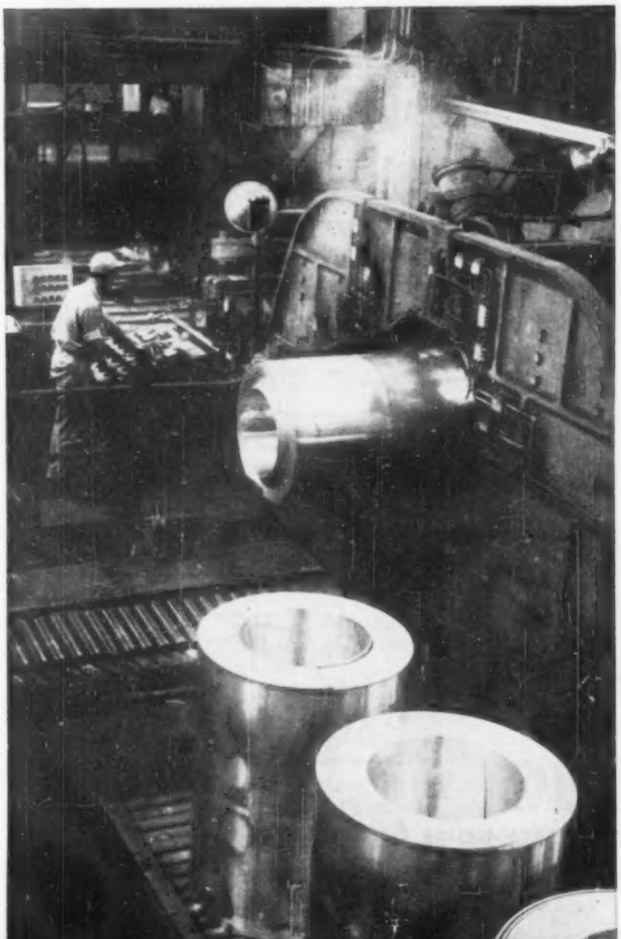
• New techniques employed by Dow at Madison make volume production of wrought magnesium more feasible than ever before.

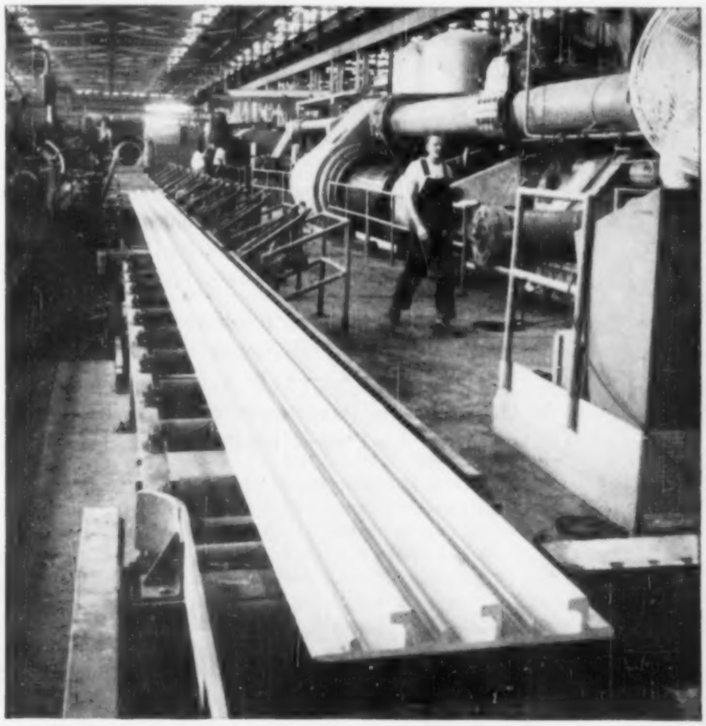
• Industry is finding new uses for the light metal.

• By spring, magnesium should be flowing from a new source—a plant planned by Alabama Metallurgical Corp. (BW—Jul.21'56,p36). And an



TESTING for defects is performed ultrasonically on racked extrusion billets of magnesium. Next, they are prepared to go into the mill's powerful extrusion presses.





MILITARY landing mat will eventually be made from this extrusion turned out by 13,200-ton extrusion press at the right.

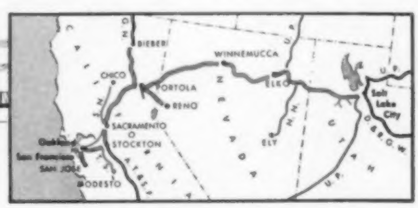
COILS of magnesium sheet pop from coiler behind Dow's 84-in. reversing breakdown mill.

Even our new car ferry is streamlined!

As vital to shippers as fast running time on the main line (in 1956 only one other railroad in the country outranked Western Pacific in train miles per train hour!) are the steps taken by Western Pacific to cut terminal delays to a minimum.

For example, to speed-up the transfer of cars between Oakland and San Francisco, we recently placed in service the first new ferry to be seen on San Francisco Bay in many years. The streamlined, all-steel, diesel-powered car ferry "Las Plumas" is a highly functional vessel, designed to do a particular job in the most efficient way possible. One unusual feature is a bow propeller (in addition to three stern propellers) which has its own engine and is positioned to give a powerful right-angle thrust for quick maneuverability in and around slips.

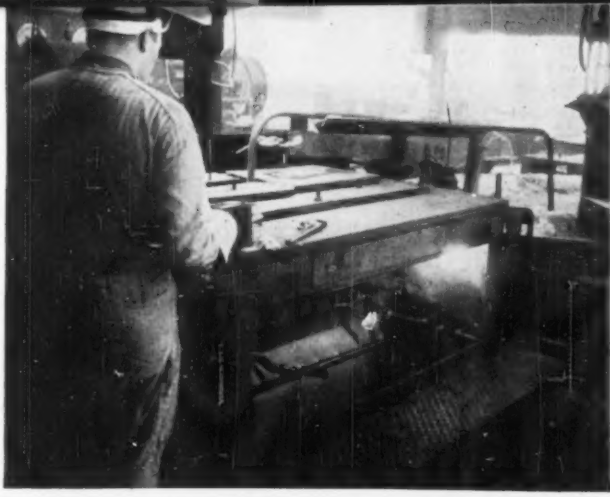
The "Las Plumas" is another tangible result of Western Pacific's policy of leading the way in the introduction of new and better equipment, improved freight handling techniques and other innovations designed to give shippers the finest transportation service in the West.



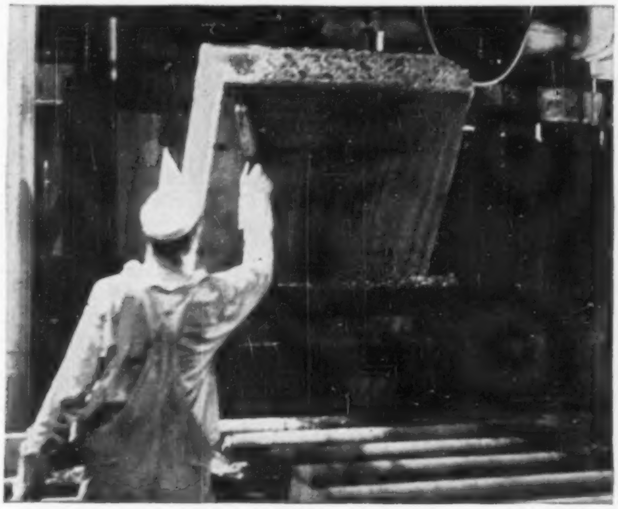
General Offices: 526 MISSION STREET, SAN FRANCISCO 5, CALIFORNIA

WESTERN PACIFIC

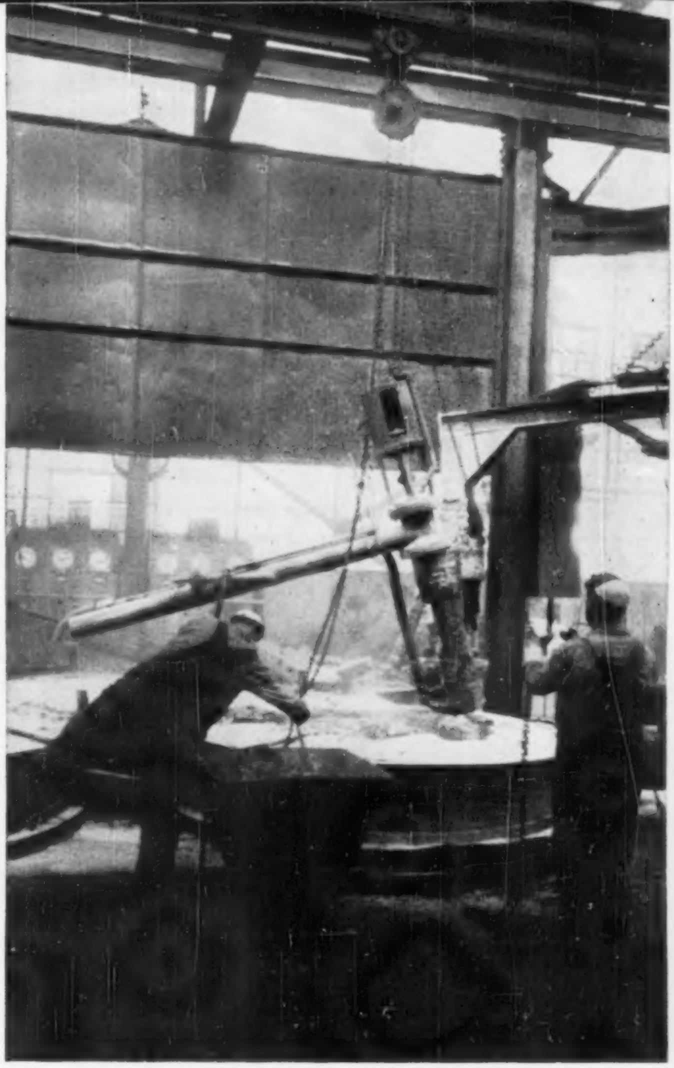
ROUTE OF THE VISTA-DOME *California Zephyr*



MOLTEN magnesium will be pumped from crucible to holding pot feeding two continuous casting machines that produce ingots and billets.



CASTING machine receives molten metal from small pipe at top, yields solid ingot cooled by spray as it emerges from copper mold.



TWO FLOORS BELOW casting machine (picture, left) the cooled ingot is cut to proper size by flying saw.

empty government magnesium plant at Painesville, Ohio, goes up for sale next month.

But there's no room for unqualified optimism. It will take a tremendous selling job, even in this era of prosperity for light metals, create markets just for the vast capacity at Dow.

I. What's It Good For?

The sales force can marshal some enticing facts about magnesium:

- It's almost the only structural metal for which the U.S. doesn't have to depend on imports. Mineral ores from which magnesium is extracted, such as dolomite, are plentiful. Dow's source of supply—sea water—contains so much magnesium in solution that it's considered inexhaustible.
- Magnesium weighs only two-thirds as much as aluminum, one-fourth as much as zinc and steel. Volume for volume, magnesium at its current price of 35¼¢ per lb. is cheaper than any other virgin metal except cast iron.
- Metalworking tools cut magnesium like butter. It's the easiest machining metal known. It can take deep, fast cuts and yield an excellent surface finish, and it's amenable to casting and extrusion.
- Because it's so malleable under heat, magnesium sheet can be formed on presses in deeper single draws than just about any other material.

• **Child of War**—Magnesium's first spurt to success was during World War II. It was first produced in 1928, when the year's output of 261 tons sold for 55¢ per lb. By 1940, the last prewar year, output topped 6,000 tons. Then came the war, and in three years magnesium production increased 30-fold to 1943's record 183,584 tons, still unmatched.

That all ended with the war. Demand collapsed, and government plants built in wartime were shut down. With sizable surpluses on hand, primary production slumped to little more than 5,000 tons. It rebounded in 1947 to 12,000 tons, then reached another peak at 106,000 tons in 1952 during the Korean War. Afterward, output leveled off in the 60,000-ton range. However, 1957 looks as if it will turn out to be the best peacetime year in history; at the present rate production will be about 80,000 tons.

• **Where It Goes**—Of the 69,250 tons of magnesium consumed in 1956, only 31% went into cast and wrought structural parts. Almost as much—29%—was devoted to metallurgical uses (among them: the Kroll process for manufacturing titanium metal, which gobbles almost a pound of magnesium for every pound of titanium produced). Cast anodes for corrosion protection took 10%, and 22.5% was used for alloying with other metals, primarily aluminum. The rest ended up in miscellaneous uses.

Slowly but steadily, more and more magnesium has been going into civilian use. Dow spokesmen say only 45% of

magnesium is now put into military products, 55% into commercial. But the proportion is different if you include the magnesium used in titanium production under the military label.

II. Building for Tomorrow

In any case, only 2,250 tons of magnesium ended up last year in products purchased by the public.

At the present rate of consumption, Dow's new Madison magnesium mill is an obvious—and deliberate—case of overcapacity. Says one executive prominent in the magnesium business, aghast at the plant's size: "Why, Dow could roll enough plate on that big breakdown mill in eight days to supply the whole industry for a year!"

• **Man to Do a Boy's Job**—But Dow claims it knows what it's doing. It fully intends to push magnesium toward a bigger share of the structural materials market. In its chemicals operations, the company has traditionally overbuilt, on the theory that increased sales or internal consumption would take up the slack. With magnesium it is taking the same tack. Carl Gerstacker, Dow treasurer and vice-president, admits: "We're way overbuilt in magnesium. . . . But we think our sales and profits will keep growing at the present rate of some 12% a year through 1970." Last year, Dow's magnesium sales came to about $63-million, around 10% of the company's total business.

Dow won't estimate the Madison mill's capacity officially. Nor will J. D. Hanawalt, manager of the Magnesium Div., reveal how close to that capacity it's currently operating.

However, from a comparison of the mill with aluminum installations of the same magnitude, it's obvious that it could handle, at full blast, something like 75,000 to 100,000 tons of metal a year. And shipments of wrought magnesium products from all sources totaled only 12,690 tons last year. In the first half of 1957, they were running at a slightly better rate.

• **Facilities**—Originally, the Madison layout was a steel casting plant for tank parts and armor plate. But because its spacious open bays and heavy craneways were adaptable to any heavy industrial job, Dow bought it from the General Services Administration in January, 1951, and rebuilt the interior.

The Korean War hurried the plant into production. The Air Force—desperately short of thin magnesium sheet for aircraft skins—acquired the first piece of rolling equipment for the plant: a 66-in. mill that could roll sheet in thicknesses of 1/20 in. and less. That mill went into production in March, 1952, and facilities for alloy ingot melting and casting followed in June. The company has added bigger and better equipment

steadily ever since. It's now operating a 13,200-ton extrusion press, half a dozen or so smaller extrusion units, an 84-in. hot mill backed by a cold mill of the same size, and several smaller rolling mills.

• **Advances**—Before the Madison mill went into action, almost all magnesium had been rolled on hand mills from small ingots. There was no such thing as a coil of magnesium sheet. Now, of course, Dow uses heavy ingots and big 6,000-hp. reversing mills. Five passes through the hot mill reduce a magnesium slab—10 ft. long, 40 in. wide, 1 ft. thick—to a coil of sheet. A final "warm" rolling (necessary because magnesium will break under cold rolling) provides a fine finish.

In the new hot metal shop, metal is alloyed and cast in a continuous process. Dow can turn out high-temperature alloys in volume and under close quality control.

III. New Applications

Dow's research in magnesium has always stayed away from end product design. "If we provide the right kind of material at the right price," says Hanawalt, "engineers and designers will put it into products." With this faith, the company leaves product design and development to its customers.

Although it's too early to judge Dow's success in providing "the right kind of material," there are already some interesting new uses for magnesium.

• A major truck maker is building three experimental bodies from magnesium.

• One of the largest distillers has converted all its advertising printing plates from copper to magnesium sheet.

• For aircraft, alloys of magnesium with rare earth elements or with thorium compete favorably with titanium, stainless steel honeycomb, and high-strength aluminum.

• More magnesium is going into military ground vehicles. The Army "mule," a 750-lb. motorized vehicle for infantry, is essentially a magnesium platform.

• **Fire Hazard**—Magnesium has been kept out of some plants by the fear of fire—which has perhaps been overdramatized by wartime publicity given to magnesium flares and incendiary bombs. But there's no denying the way magnesium burns once lit. Furthermore, wet magnesium chips are definitely an explosion hazard.

However, very few of the 50 or more U. S. magnesium fabricators have ever suffered a serious magnesium fire. Most fabricators say magnesium in massive or sheet form is virtually impossible to ignite. An oxacetylene torch can set it ablaze, and it will burn in a general building fire. But, in general,

it's almost as safe to handle as any other metal.

• **Big Brother**—Magnesium has always been a kind of baby brother to aluminum. It's hard to find a single structural application of magnesium for which aluminum isn't suited, too.

Many specifications for die-cast auto parts call for aluminum or magnesium, whichever is cheaper. At today's primary aluminum prices, magnesium enjoys an advantage, at least for die castings. But most die-cast parts use secondary aluminum, melted from scrap, and with aluminum in oversupply and scrap prices depressed, the advantage disappears.

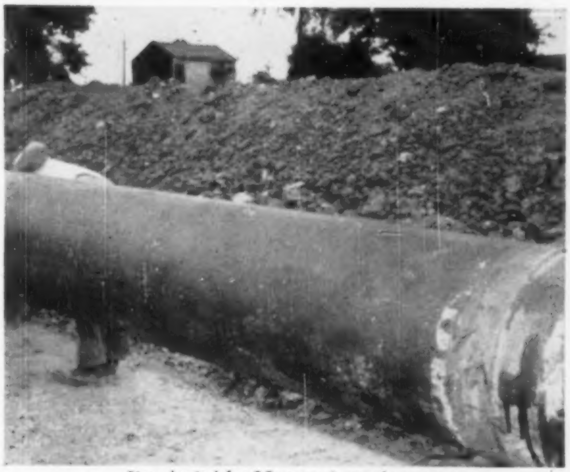
• **Bright Hopes**—Two new developments may improve magnesium's position in die castings. One is hot chamber magnesium die-casting equipment, which uses a submerged pump to deliver molten metal to the dies, instead of the hand dipper in the cold chamber process. It's much faster and more automatic. So far, only a few have invested in the machines, but the names are big: Westinghouse and the AC Spark Plug and Delco Divs. of General Motors.

The other innovation is an automatic metering device developed by Dow as an accessory for a cold chamber machine. This would make it possible to convert thousands of cold-chamber aluminum die-casting machines to automatic operations using magnesium. The device automatically delivers a measured shot of molten magnesium to the charging chamber. Since it uses steel parts and valves, it won't work with aluminum, which attacks ferrous alloys when molten. Dow thinks it will introduce magnesium to a lot of die-casting shops where it's never been before.

• **Where to Get It**—In order to crash the big time, magnesium needs a broader base of supply. For all practical purposes, the only supplier now is Dow, with two sea-water recovery plants, one a government facility at Velasco, Tex., and the other its own layout in Freeport, Tex. The company has bid $19.1-million for the Velasco plant, but the Justice Dept. hasn't yet approved the sale. The two plants are operating in excess of their combined annual capacity of about 76,000 tons.

The most likely secondary source is Alabama Metallurgical Corp., a joint venture of Brooks & Perkins, Inc., of Detroit and Dominion Magnesium, Ltd., of Canada. Alabama Met has ordered the structural steel for a 12,000-ton-capacity plant to produce high-purity magnesium from dolomite ore by a thermal process.

GSA will put a Painesville (Ohio) magnesium plant, now in standby condition, on the auction block Sept. 12. A buyer for that would be a big help to the supply situation. END



Pipe, buried for 25 years, is good as new

Applying NO-OX-ID "GG" over the cleaned surface

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Twenty-five years ago NO-OX-ID combinations sealed this pipe against corrosion. Today, after two and one-half decades of uninterrupted service, the pipe is as good as new.

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Recently, new construction made relocation of the line necessary. Inspection revealed the original NO-OX-ID coatings and wrappers had chemically and mechanically stopped moisture penetration and corrosive attack. *Not a foot of pipe was replaced.* After cleaning and a new application of NO-OX-ID coating-wrapper combination, the pipe was lowered in. It's now ready for many more years of additional service.

Many leading pipeline companies and utilities rely on NO-OX-ID combinations for lasting pipeline protection. Consult your Dearborn representative next time you move pipe or lay new lines for the right combination to meet your soil conditions.

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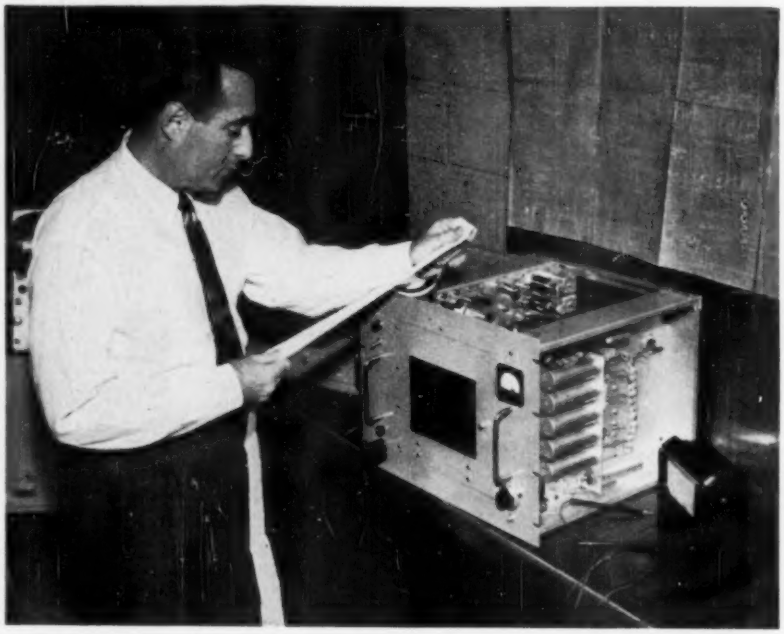

NEW converter translates analog curves into numbers that can be fed into computer.

Two Electronic Brains Coordinate Their Work

The many attempts made to get the analog and digital computer to work together have not been very successful. The problem is that they work so fast that converters—electrical and mechanical instruments used to coordinate the mathematical flashes—wear out before they can be put to heavy duty use. This lack of reliability has kept a very valuable production-control system out of plants. The instrument in the picture, called ADIT, is considered the answer by its manufacturer, Weston Electrical Instrument Corp., a subsidiary of Daystrom, Inc.

ADIT's work is cut out. An analog computer is contemptuous of numbers. It judges speed, temperature, electric current, and such things at very high speeds without bothering about humdrum figures. The result is answers that resemble the level of mercury in an unmarked thermometer. A digital computer works with facts and figures, not theories. It can't make complex calculations like the analog; instead it does the same work by simple arithmetic, and so is a lot more stable. And it gives concrete numerical information that can be put on punch cards and tape and stored for later use.

The computer converter has to take the curves plotted by the analog computer and read them off as numbers that can be fed into the digital computer. In other words, it puts numbers on the thermometer and then reads them accurately.

Previous converters tried to do the job by using a combination of vacuum tubes and mechanical relays. But they often had less than 1/100th second to transfer the information. Mechanical parts often broke down in less than 24 hours because of the strain. The threat of large amounts of down time kept industry at a distance.

ADIT works entirely electronically without moving parts. In the model designed for industry, these parts are replaced by transistors, which are expected to last well over a year. The laboratory model, which can operate for more than eight months without failure, uses vacuum tubes.

- **At Work**—ADIT works like this: The numberless information of the analog comes into the converter as an electric current varying with the quantity measured. To give the current a number, it's matched against a much stronger current set at a constant level in the converter. The result is a ratio between the strong current and the weak over a set period of time. This provides a numerical fraction that the digital computer can read and register in its memory core.

The system is expected to have immediate use in the chemical and petro-

Rely on your AIM*. . . Menasha Container of California did . . .

Steel Strapping Machine unitizes corrugated boxes

Acme Idea Man, Ray Vilas worked with Menasha Container to develop this better packaging system.

Modern ideas call for handling larger units with mechanical equipment. To better serve their customers, Menasha Container of California, Anaheim, straps corrugated boxes in large units with the Acme Steel F3 Strapping Machine. The result is increased economy, ease of handling, better stacking, simpler inventory counts—and greater product protection. Menasha benefits too—for units are compressed and strapped efficiently in high volume at one centralized location. (Idea No. S3-20)

The F3 successively compresses the unit and tensions, cuts and seals one strap—or two or three straps simultaneously—*while the unit is still under compression.* Air powered and electrically controlled with push-buttons, it applies each strap with uniform, pre-determined tension. After each application, the platen rises and the strapped unit moves down the conveyor. While the following unit moves into the machine, straps are feeding into position for the next application. Units of various sizes can be compressed and strapped in any sequence without machine adjustment.

***RELY ON YOUR ACME IDEA MAN.** His files are full of service-proved Ideas that can be made to work for you. Call him today at the nearest Acme Steel office. Or write: Dept. BGS-87, Acme Steel Products Division, Acme Steel Company, Chicago 27, Illinois. In Canada, Acme Steel Company of Canada, Ltd., 743 Warden Avenue, Toronto 13, Ontario.

ACME STEEL STEEL STRAPPING

chemical industry. An analog computer set to check 600 or more points of the production stream could compute the rate of flow at one of them within milliseconds and sent the information to the converter. Then the number would be fed to the digital computer where it would be matched against the control number stored in the magnetic memory core. If it matches, fine. If it doesn't match, the proper command is sent from the memory core to the check point, and the correction is made automatically. The analog moves onto the next point and repeats the procedure. The operation continues during the production run, keeping a constant check throughout the system.

There's also talk of controlling production so that a plant will always be producing the optimum quantity for the current raw material cost and sales volume. The commands for making the proper changes could be stored in the memory core and released by punch card or tape when a change is wanted.

The ADIT transistor model designed for industry costs about $8,500; the vacuum tube model for labs and smaller operations, about $4,000.

NEW PRODUCTS BRIEFS

A TV device about the size of a cigar box that hooks on the outside of a television camera is expected to double the life of a camera's most expensive component. It prevents the burning-in or sticking of images on I-O or image orthicon tubes. These are the tubes that pick up images and change them to electronic signals for transmission to television receivers. Cost of the General Electric device is $1,200.

•

A protective spray for outdoor piles of bulk materials that is similar to airplane cocooning material has been developed by Johnson-March Corp., of Philadelphia. The preparation is a colloidal suspension that forms a tough, flexible, water-resistant film when exposed to air. It is suitable for coating stockpiles of coal, ores, coke breeze, flyash, sulphur, and all types of material in dead storage regardless of composition or particle size. The solution, which is mixed with water, is called Permaspray and sells for 65¢ a gal.

•

A gold-plating concentrate that gives a permanent 24-carat gold plate to many metals without using electric current or special equipment is being marketed by Baker & Co., of Newark, N. J. The concentrate, called Atomex, is mixed with water, and the object to be coated is dipped into the mixture. It costs about the same as electroplating material.

Someone Has to Buy the Product

Sylvia F. Porter, International Financial Columnist for Hall Syndicate, Inc., says:

"Producing goods was the primary challenge facing American business from 1946 to 1956. In 1957, the emphasis has shifted. Today's problem is marketing . . . distributing goods in sufficient volume to sustain our growing level of production.

"How do we do this? Advertising, promotion and public relations are all essential, but advertising is by far the most important. It plays a more crucial role today than at any time since World War II.

"Business management is generally inclined to cut advertising budgets at the first signs of a slowdown. This is absolutely wrong! At the very least, these budgets should be maintained; or ideally, increased. For only by *continually encouraging buying at every level* can sales be stimulated."

If you have a financial interest or responsibility in a company, encourage its management to invest adequately in advertising. You will find that McGraw-Hill business and technical magazines, read by key men in industry, provide the most efficient way to reach many of today's major business markets.

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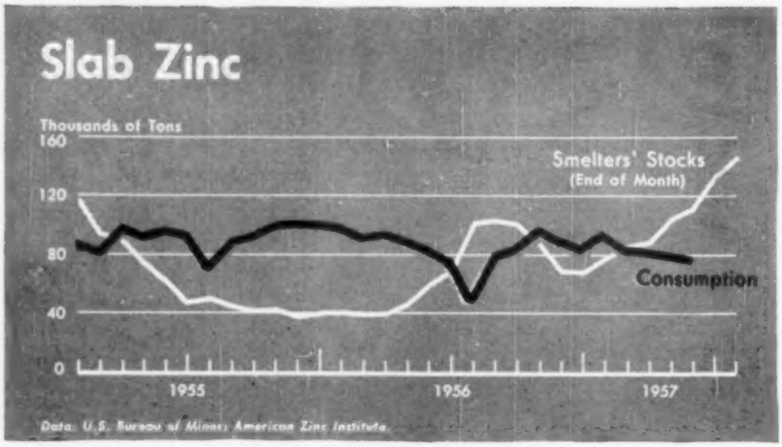
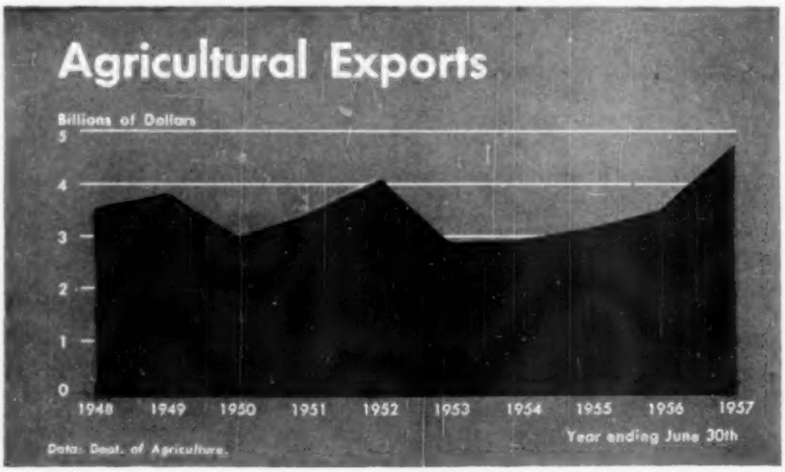
CHARTS OF THE WEEK



Inventories Keep on Rising

The imbalance between consumption and production continues to plague the zinc industry. At the end of July, smelters' inventories of slab zinc had climbed to 146,000 tons. For 15 months, consumption has been running behind year-ago levels. And production has exceeded consumption for some time. Slightly lower production in July than in June failed to prevent another increase in inventories on July 31.

The American Zinc Institute, however, thinks 1957 will be a good zinc consumption year. Its estimate for the year is 950,000 tons—down from 1955 and 1956 levels, but slightly higher than 1954. The institute believes demand for zinc is continuing at a high level and will grow as over-all production in the economy rises.



Hitting Unprecedented Levels

Exports of farm products soared to a record $4.7-billion in the fiscal year ended June 30, 1957—up 35% over the preceding year and up 16% over the previous high set in 1952. Government programs making cotton and other CCC commodities available for export at competitive world prices played a big part in the foreign marketings. In addition, the reduced foreign stocks of some commodities and the continued expansion of economic activity and money incomes abroad helped bring about the unprecedented U.S. farm exports.

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Index for Business Week August 24, 1957

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Pittsburgh 22....John R. Thomas, Henry W. Oliver Bldg., Atlantic 1-4705

St. Louis 8....James H. Cash, Continental Bldg., 3615 Olive St., Jefferson 5-4867

San Francisco 4....John W. Otterson, 68 Post St., Douglas 2-4600

England....Herbert Lagler, McGraw-Hill Co., Ltd., 95 Farringdon St., London, E. C. 4

Appraising the Fourth Quarter

All through the first half of this year, businessmen felt that the economy was in a temporary pause that would be followed by a fourth-quarter upsurge.

But now they have growing doubts about the fourth-quarter upsurge. The stock market—an imperfect business forecaster but a pretty accurate indicator of business sentiment—has been registering a switch from confidence to anxiety.

Anxiety has grown on a spate of disturbing reports —about excess capacity in many industries, cuts in defense spending, a stretching-out of the inventory adjustment, a contraction in foreign demand, Communist gains in the Middle East, the zestless mood of consumers at home.

Are these elements sure and fixed for the period ahead—or are they aspects of a bad dream that will fade with the autumn? We'll soon know . . .

Or will we? How will we know whether the fourth quarter is living up to expectations and is breaking out of the stagnation—or whether the autumn pickup is so weak as to confirm indications of a gradually faltering economy?

Obviously, if the fourth quarter brings dramatic changes—booming sales of autos and other durables, or, in the opposite direction, a lurch in sales, plummeting of the securities markets, or sharp increases in unemployment—everyone will know.

But what if we get only a continuation of the sideways movement of the economy until Thanksgiving Day? Will there be any way of knowing for sure whether we have passed a turning point?

Unfortunately, economic indicators, such as those of the National Bureau of Economic Research, are not wholly reliable forecasters of business cycle turning points. The National Bureau's indicators are pointing down now, but in the past they sometimes signaled downturns that never happened.

Another indicator is the annual rate of growth in the money supply. This has turned down about one year before the start of every contraction in the economy in the past 50 years, except for the short-lived slump of 1949-50.

For two years now, our money supply has been growing only slowly—yet we have had no decisive indication that we are turning toward recession.

Here, though, we have a question of cause and effect—and one that may be critical.

For the Federal Reserve Board has deliberately checked the growth of the money supply as part of its policy of restraining inflation.

Chmn. William McChesney Martin still is concerned about inflation. He is determined to hold tight for a while longer in the face of the evidence —evidence in the form of excess capacity and disappearing shortages of everything, as he concedes, except money—that the steam is leaking out of the boom.

But until businessmen can be sure that the price of fighting inflation will be no more than a pause in the economy, they can be forgiven for worrying. No one can be sure, particularly after the spectacular changes in the U. S. economy since World War II, that a major cyclical downturn now could be reversed easily.

There is no simple, mechanical way of knowing when the economy will reach the end of the plateau and begin to grow again—or to turn down. But the next few months may well tell the story.

Civil Rights

As BUSINESS WEEK goes to press, it's still not certain that a civil rights bill will be passed. But this much is clear: If any civil rights bill is to become law this year, it will be essentially the Senate bill or none at all.

We believe the merits of the Senate bill have been obscured in the furious conflict of emotions, ideals, and politics on this issue.

The Senate bill concentrates on protecting and enforcing the Negro's right to vote. It authorizes the Attorney General to seek federal court injunctions against violations of voting rights. It empowers federal judges to rule against violators of voting rights in cases of civil contempt of the courts' injunctions, but it requires a jury trial to convict violators in cases of criminal contempt.

This is a strong bill—the first piece of real legislative machinery empowering the federal government to act in civil rights cases. Yet, by that process of compromise through which the Congress has often justified faith in the democratic process, the Southern leaders of the Democrats in Senate and House, the two Texans, Sen. Lyndon Johnson and Speaker Sam Rayburn, have accepted it. So, too—though they would have preferred not to have the jury trial amendment in criminal cases—have such leading civil rights advocates as the National Assn. for the Advancement of Colored People and the AFL-CIO.

We would have preferred a measure that offered even stronger protection of the rights of Negroes. But a bill that can command such broad-based support, and that goes so far to secure and protect the Negro's right to vote, should not be rejected for narrow political motives—or because it does no more than what is presently possible. Favorable action on this bill in this session obviously does not preclude further progress on civil rights in future sessions of Congress.

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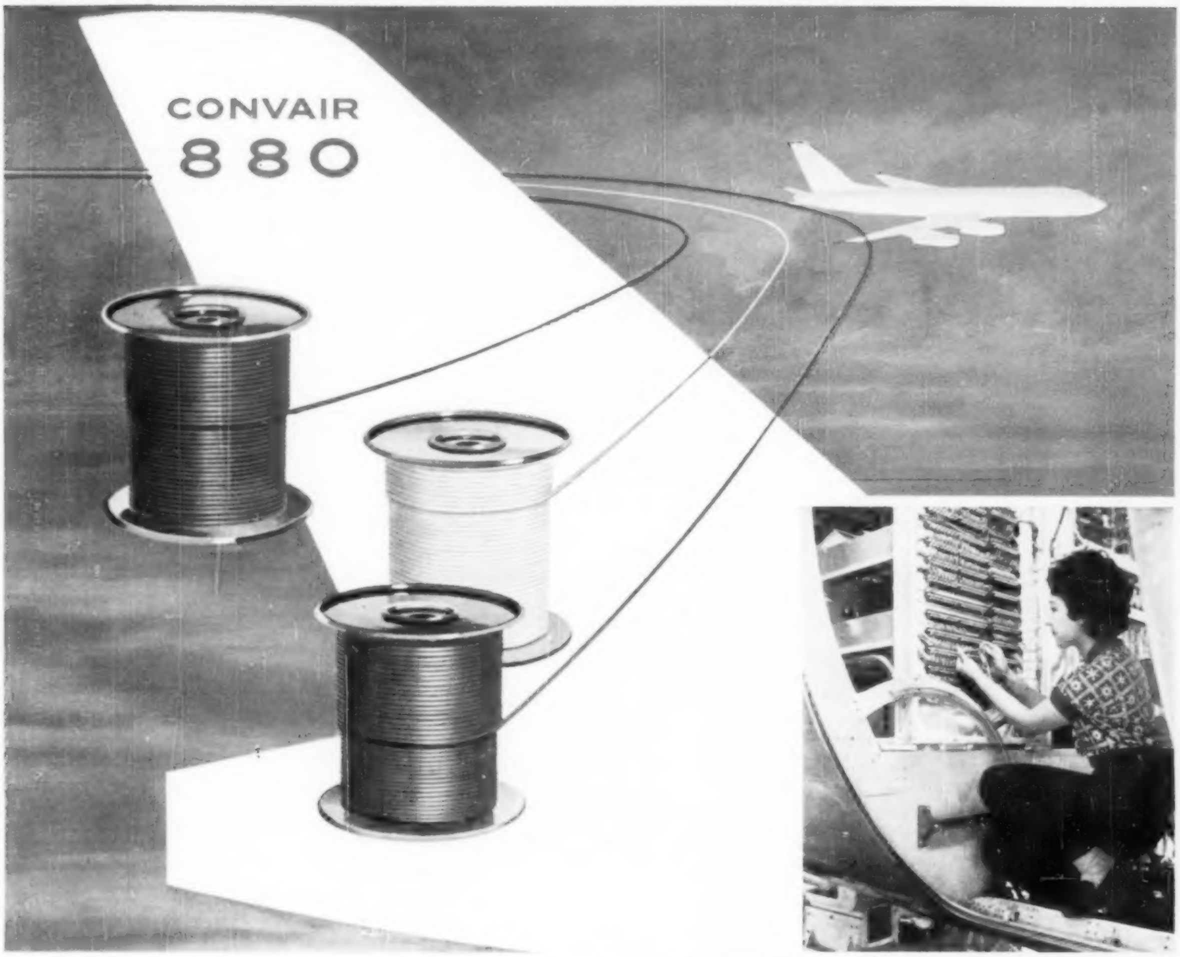

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